Letter of Transmittal

November 20, 2003

To the President of the United States, President of the Senate, President Pro Tempore of the Senate, and Speaker of the House of Representatives:

I am pleased to submit the Department of Veterans Affairs' FY 2003 Annual Performance and Accountability Report. As America's troops return from liberating Iraq, we are reminded once again of the incredible sacrifices our servicemen and women make in defense of freedom. During fiscal year 2003, the Department of Veterans Affairs (VA) has fulfilled our responsibility to provide veterans with the best in benefits and health care by making our department a model of excellence. One way we have done so is by focusing our business practices on management accountability and systematic improvement. For example:

- Our health care system delivers world-class medicine to almost 5 million veterans and leads the Nation's health care providers in using computerized records, treating spinal cord injury, improving prosthetics, and promoting patient safety. Our focus continues to be on meeting the health care needs of our core group of veterans – those with service-connected disabilities, with lower incomes, or who require specialized care.

- Our benefits programs ensure that more than 14,953,000 veterans and their families receive the compensation, pension, education, insurance, home loan guaranty, and vocational rehabilitation and employment benefits they earned through their service to our Nation.

- Our cemetery program made certain that last year, almost 90,000 veterans and eligible family members were buried with dignity and honor in our national cemeteries.

- VA once again obtained an unqualified audit opinion on our consolidated financial statements, continuing the tradition of financial management excellence first achieved in 1999.

The performance and financial data in the report are reliable and complete. This report documents our progress in addressing identified material weaknesses. Our evaluation of senior administrative and program managers' annual assessments provides reasonable assurance that the management controls and financial systems of VA generally adhere to the requirements of the Federal Managers' Financial Integrity Act. We continue to make progress on the implementation of our integrated financial management system, Core Financial and Logistics System, which will enhance VA's compliance with governmentwide financial integrity standards.

In fiscal year 2004, our Department will continue to improve our stewardship of the funds entrusted to us, improve our capital asset management program, and plan for the future needs of America's veterans and their families.

VA is proud to serve veterans with dignity and compassion, and to be their principal advocate to the President, Congress and the American people. We are honored to promote the health, welfare, and dignity of veterans in recognition of their service to our Nation, and to embody our Nation's response to President Abraham Lincoln's challenge "to care for him who shall have borne the battle, and for his widow, and his orphan."

Anthony J. Principi
Secretary of Veterans Affairs

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VA's Performance Scorecard for FY 2003

Strategic Goal	Performance Measure	Was the Goal Achieved? Yes	No	Performance Goal	Actual	Improved from FY 2002?
Restore the capability of veterans with disabilities to the greatest extent possible, and improve the quality of their lives and that of their families	Percent of veterans who were discharged from a DCHV Program, or HCHV Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement (pp. 44, 180)	✓		65%	72%*	No
	Compensation and pension rating-related actions - average days to process (pp. 45, 180)		✓	165	182	Yes
	Compensation and pension rating-related actions - average days pending (pp. 46, 180)		✓	100	111	Yes
	National accuracy rate for core rating work (pp. 47, 180)		✓	88%	85%*	Yes
	Average number of days to obtain service medical records (pp. 47, 182)			Baseline	N/A	N/A
	Vocational rehabilitation and employment rehabilitation rate (pp. 48, 182)		✓	65%	59%	No
Ensure a smooth transition for veterans from active military service to civilian life	Percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons (pp. 51, 182)	✓		50%	100%	Yes
	Percent of Claimants who are Benefits Delivery at Discharge participants (pp. 51, 182)			Baseline	22%	N/A
	Average days to complete: Original education claims Supplemental education claims (pp. 52, 182)	 ✓ ✓		 29 15	 23 12	 Yes Yes
	Foreclosure avoidance through servicing (FATS) ratio (pp. 53, 184)	✓		44%	47%	Yes
Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation	Chronic Disease Care Index II (pp. 55, 184)	✓		78%	80%*	No
	Prevention Index II (pp. 56, 184)	✓		80%	83%*	Yes
	Percent of patients rating VA health care service as very good or excellent: Inpatient Outpatient (pp. 56, 184)	✓ ✓		70% 71%	73% 74%	Yes Yes
	Average waiting time for new patients seeking primary care clinic appointments (pp. 57, 184)	✓		45	43*	Yes
	Average waiting time for next available appointment in specialty clinic (pp. 57, 186)	✓		60	45*	N/A
	Increase the aggregate of VA, state, and community nursing home and non-institutional long term care as expressed by average daily census: Institutional Non-Institutional (pp. 58, 186)		 ✓ ✓	 32,429 19,561	 33,031* 17,583*	 Yes Yes
	Average days to process insurance disbursements (pp. 59, 186)	✓		2.8	2.4	Yes
	Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence (pp. 60, 186)	✓		74.4%	75.2%	Yes
	Percent of respondents who rate the quality of service provided by the national cemeteries as excellent (pp. 61, 188)		✓	95%	94%	Yes
	Percent of graves in national cemeteries marked within 60 days of interment (pp. 62, 188)	✓		70%	72%	Yes
Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation	Percent of research projects devoted to the Designated Research Areas (pp. 65, 188)	✓		99%	99%	No
	Percent of respondents who rate national cemetery appearance as excellent (pp. 67, 188)		✓	98%	97%	No
Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology, and governance	Ratio of collections to billings (pp. 72, 188)	✓		40%	41%	Yes
	Dollar value of sharing agreements with DoD ($ in millions) (pp. 73, 188)		✓	$100	$92*	Yes

N/A = Not applicable

* Indicates preliminary or estimated data.

Executive Summary

This report documents the Department of Veterans Affairs' (VA) progress during fiscal year (FY) 2003 toward ensuring that America's veterans and their families receive timely, compassionate, high-quality care and benefits. The performance information in part II conforms to the *Department of Veterans Affairs Strategic Plan 2003 – 2008*, published in July 2003, which can be found at our Web site link, http://www.va.gov/hottopic/. The financial statements, audit results, and major management challenges can be found in part III of this report.

In FY 2003, with resources of $65.1 billion in obligations and nearly 212,000 full-time equivalent (FTE) employees, VA achieved significant accomplishments that brought us closer to attaining our long-term strategic goals. To help measure our progress, we established 125 performance goals at the beginning of the fiscal year, 27 of which were identified by VA's senior leadership as critical to the success of the Department.

VA's performance scorecard for FY 2003 summarizes how well we did in meeting the key performance goals directly associated with each of the strategic goals. This allows us to examine performance from a Departmental perspective. The Department made significant advances during FY 2003, but continued to have challenges in certain areas.

The number of veterans using VA's health care system has risen dramatically in recent years, increasing from 2.9 million in 1995 to 5 million in 2003. Unable to completely absorb this increase, VA began 2003 with more than 280,000 veterans on waiting lists to receive medical care. In order to ensure VA has capacity to care for veterans for whom our Nation has the greatest obligation – those with service-connected disabilities, lower incomes, or needing specialized care such as veterans who are blind or have spinal cord injuries – the Secretary made his annual health care enrollment decision in January, suspending additional enrollments for veterans with the lowest statutory priority. This category includes veterans who are not being compensated for military-related disability and who have higher incomes. This decision, along with a focused effort to address the large waiting list of veterans who requested an appointment, has improved access to health care for those who need it most.

In addition, a new regulation giving priority access for severely disabled veterans was implemented for those veterans with service-connected disabilities rated 50 percent or greater. This new priority includes hospitalization and outpatient care for both service-connected and nonservice-connected treatment. In 2004, VA will provide priority access to other veterans for their service-connected conditions.

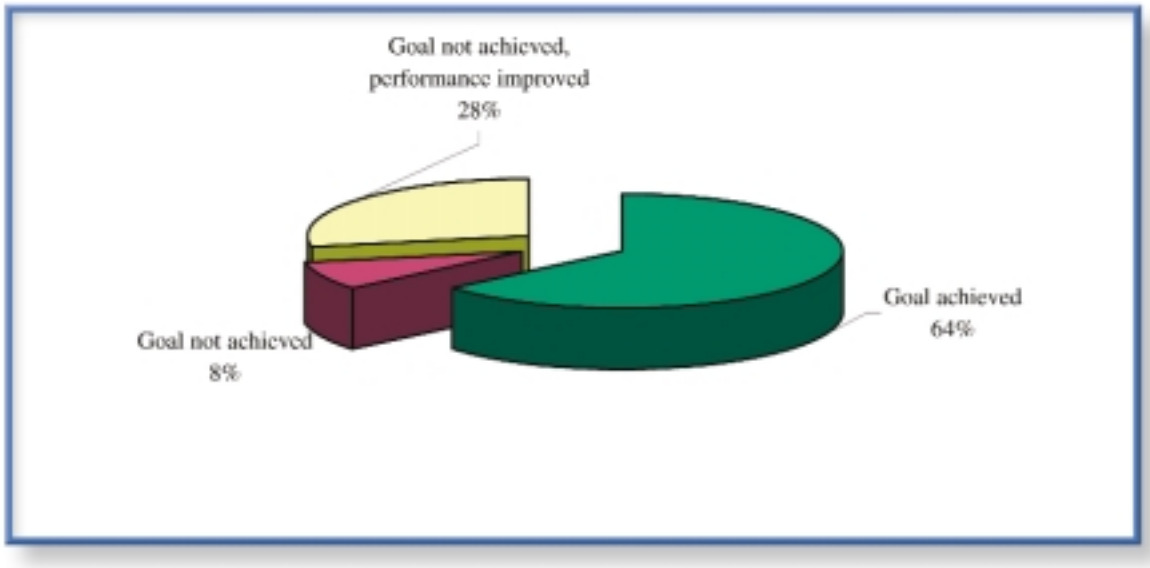
We have fully implemented nearly all of the approved recommendations of the Secretary's Claims Processing Task Force. These efforts are bringing us closer to our goal for timeliness of processing compensation and pension claims. As a result, we continue to significantly reduce the age of the pending inventory and greatly reduced the number of claims in our inventory, including our oldest cases (those over 6 months old). The Department remains committed to improving the timeliness of claims processing and has developed strategies for accomplishing future performance goals.

Mission

"To care for him who shall have borne the battle, and for his widow, and his orphan…."

These words, spoken by Abraham Lincoln during his Second Inaugural Address, reflect the philosophy and principles that guide the efforts of the Department of Veterans Affairs in serving the Nation's veterans and their families.

Some of the most important successes attained in FY 2003 are summarized below under our key performance results by strategic goal. Some of the 27 key performance goals deal with program outcomes; others pertain to the management of our programs. FY 2003 data for all of these key performance goals are listed in the "performance actual" column of the performance scorecard on page 4. For some measures for which final data were not available, we are reporting preliminary data and will present final data in the 2004 report and 2005 Congressional Budget.



The Department achieved 16 of the 25 key performance goals (64 percent) for which we had FY 2003 targets, compared with 77 percent achievement in FY 2002. For 7 of the 9 performance goals not met, actual performance in FY 2003 was better than that reported in FY 2002. We did not set performance goals for two measures but collected baseline data during the year.

Key Performance Results by Strategic Goal

Performance measurement in this report is structured around the goals and objectives presented in the Department's strategic plan. Within the narratives, we have incorporated the key measures that support these goals and objectives. (In this report, years are fiscal years unless stated otherwise.)

Strategic Goal 1:

Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.

We use six key performance goals to measure our progress toward achieving this strategic goal, all of which focus on benefits and services for disabled veterans. We achieved one of these key performance goals. One key measure was new and did not have baseline data.

The Department exceeded the 65 percent goal for the proportion of discharges from a Domiciliary Care for Homeless Veterans program or Health Care for Homeless Veterans Community-based Contract Residential Care Program to an independent or secured institutional living arrangement by achieving 72 percent as of August 2003.

A positive improvement in the average days to process a rating claim has been made from 2002 performance, reducing the cumulative average by 41 days. Although the Secretary's priority of 165 days was not met in 2003, the average processing time for veterans who received a decision during the last 3 months of the fiscal year was below the 2003 plan for those months. Throughout the year we continued to prioritize the oldest claims in our inventory as well as claims from our older veteran population, which had an effect on this measure. Actual timeliness for the year was 182 days versus the previous year's level of 223 days. The significant progress we achieved is further demonstrated by the decrease in the claims backlog from 345,516 rating claims at the end of 2002 to 253,597 rating claims at the end of 2003. In addition, the percentage of claims over 6 months old was reduced from 35 percent to 19 percent. Although we did not meet our goal of 100 days, the age of our pending inventory was reduced from 174 at the end of 2002 to 111 days.

During 2003, the national accuracy rate in processing rating-related claims for compensation and pension benefits improved to 85 percent as of July 2003 from 81 percent in 2002; however, we did not attain our goal of 88 percent.

The rehabilitation rate measures the number of service-disabled veterans who exited a vocational rehabilitation program and acquired and maintained suitable employment. The actual for 2003 was 59 percent, which fell below the goal of 65 percent. Fewer employment opportunities coupled with a greater number of veterans who chose to leave the program before completion contributed substantially to our falling short of the targeted rehabilitation rate.

Strategic Goal 2:

Ensure a smooth transition for veterans from active military service to civilian life.

In 2003, we met four of the five key performance goals relating to achievement of this strategic goal and collected baseline information for one new measure. We surpassed our goal that 50 percent of VA medical centers provide electronic access to health information transmitted by the Department of Defense (DoD) on separated servicemembers by achieving 100 percent in 2003. The Federal Health Information Exchange /Government Computerized Patient Record is fully installed and functioning at all sites and will further ease the transition of veterans from active service to civilian life.

The timeliness of processing education claims improved during 2003. The processing of both original and supplemental education claims surpassed the goals set for 2003. Our plan was to process original education claims in no more than 29 days; it took an average of 23 days compared with 34 days in 2002. The average number of days needed to process supplemental education claims was 12 days, 3 days less than the performance target of 15 days. This is an improvement over 2002 when we reported 16 days. The Montgomery GI Bill allows veterans the opportunity to achieve educational or vocational objectives that might not have been attained had they not entered military service.

We met our goal to assist veterans who are in default on a VA-guaranteed home mortgage, as measured by the foreclosure avoidance through servicing ratio. The foreclosure avoidance rate improved from 43 percent in 2002 to 47 percent in 2003 due to economic factors such as interest rates, real estate appreciation, and employment levels as well as VA's aggressive proactive servicing program to assist these veterans.

Strategic Goal 3:

Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.

VA achieved 9 of the 12 key performance goals for this strategic goal. For the three key performance goals we did not meet, performance in 2003 improved over that reported in 2002.

VA uses two key performance measures to assess the quality of health care delivery – the Chronic Disease Care Index II (CDCI II) and the Prevention Index II (PI II). These indices measure the degree to which the Department follows nationally recognized guidelines for the treatment and care of patients. Through the third quarter of 2003, VA surpassed its CDCI II target of 78 percent by achieving an 80 percent score and surpassed its PI II target of 80 percent by achieving an 83 percent score.

The share of inpatients and outpatients rating VA health care service as "very good" or "excellent" improved, surpassing the targets by achieving 73 percent for inpatient satisfaction and 74 percent for outpatient satisfaction in 2003. This indicates a very high level of satisfaction with VA health care and is an improvement over the inpatient and outpatient satisfaction levels recorded during 2002, at 70 percent and 71 percent, respectively.

For 2003, the Department worked hard to improve the timeliness of providing health care to veterans and we achieved the goals set: to reduce the average waiting time for new patients seeking primary care clinic appointments to 45 days, and to reduce the average waiting time for the next available appointment in a specialty clinic to 60 days. Through August 2003, we achieved 43 days and 45 days for these goals, respectively.

VA is striving to meet the needs of veterans for both institutional nursing home care and non-institutional care by increasing the aggregate of VA, state, and community nursing home and non-institutional long-term care as expressed by average daily census. During the course of 2003, the target for non-institutional care was reduced to account for methodology changes in capturing and calculating census data. The target for 2003 for non-institutional care was lowered to 19,561 and as of August 2003, our average daily census was 17,583. For this same period, we did not meet our institutional goal of 32,429 but achieved an average daily census of 33,031.

VA surpassed its target of 2.8 days for average days to process insurance disbursements, improving on the 2002 actual of 2.6 days by achieving 2.4 days in 2003.

VA succeeded in surpassing the goal of 74.4 percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence by achieving 75.2 percent at the end of 2003. This is the Department's primary measure of the degree to which we are providing access to burial services.

Ninety-four percent of survey respondents rated the quality of service provided by the national cemeteries as "excellent." This was 1 percent less than the goal of 95 percent but is an improvement over our 91 percent rating in 2002.

VA exceeded by 2 percent the planned goal of marking 70 percent of graves in national cemeteries within 60 days of the date of interment.

Strategic Goal 4:

Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.

VA succeeded in achieving one of the two key performance goals relating to this strategic goal in 2003. We met the 99 percent goal of VA research projects devoted to the Designated Research Areas.

Ninety-seven percent of survey respondents rated national cemetery appearance as "excellent" in 2003, maintaining our success of 2002. This was 1 percent below the 2003 goal.

Enabling Goal:

Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology and governance.

We achieved one of the two key performance measures that focus on improving business processes for our medical program. We improved our ratio of collections to billings by surpassing our goal of 40 percent and achieving 41 percent, which is an improvement over the 37 percent achieved in 2002.

Our goal to increase the value of sharing agreements with DoD to $100 million was not achieved; however, our efforts to coordinate activities with DoD improved, as we estimate $92 million in sharing in 2003.

The Challenges Ahead:

As we strive to provide the highest quality benefits and services to our Nation's veterans, we realize we have many program and management challenges to overcome. The VA Office of Inspector General (OIG) and the General Accounting Office (GAO) have provided the most succinct description of our major challenges.

The OIG challenges include:

- Health care delivery
- Benefits processing
- Procurement
- Financial management
- Information management

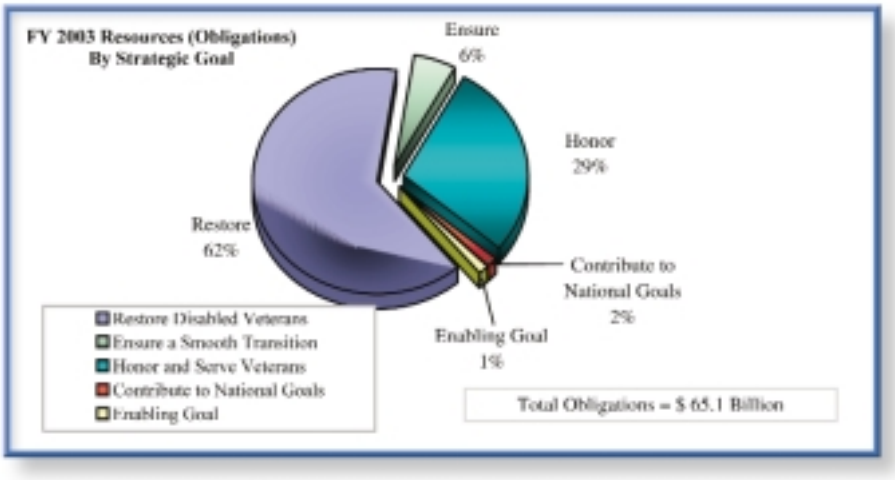
The GAO challenges include:

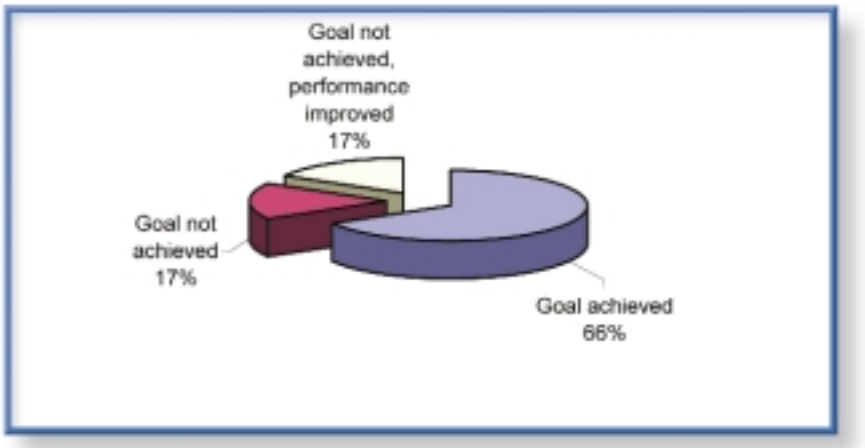
- Access to quality health care
- Manage resources and workload to enhance health care delivery
- Prepare for biological and chemical acts of terrorism
- Improve veterans disability program
- Develop sound Departmentwide management strategies to build a high performing organization
- Federal real property: a high risk area

For a thorough discussion of these challenges, see the section on Major Management Challenges, which begins on page 143.

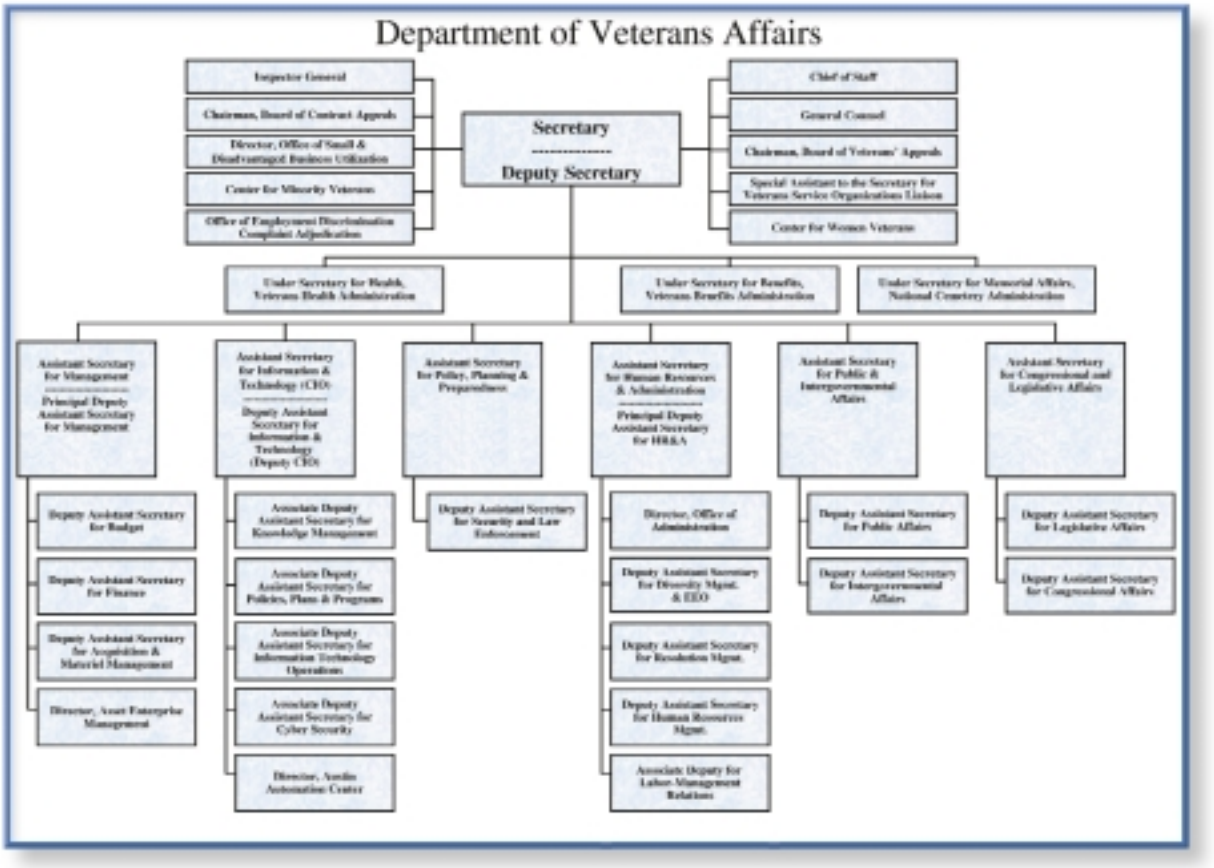
All Performance Goals

In addition to the key performance goals identified by VA's senior leadership as critical to the success of the Department, program managers established other performance goals at the beginning of 2003. Collectively, these performance goals demonstrate the full scope of the Department's programs and operations. A total of 125 performance goals were set at the start of the fiscal year: 27 designated as 'key' goals and 98 as 'supporting' goals. VA met 66 percent of the performance goals for which we had data. We did not have data for 10 measures currently under development and one measure for which data will be available in November. For those measures not achieved, 17 percent showed that the Department's performance improved over that reported in 2002. For more detailed information on supporting performance goals, refer to the tables shown on pages 86 to 96.





Who We Are



VA is striving to fulfill the words spoken by President Lincoln over 100 years ago by working to provide world-class benefits and services to veterans in a cost-effective manner. The statutory mission authority for VA defines our organizational commitment to America's veterans: "to administer the laws providing benefits and other services to veterans and the dependents and the beneficiaries of veterans." (38 U.S.C. 301(b)) This mandate sets forth the Department's role as the principal advocate for veterans and charges VA to ensure that veterans receive the medical care, benefits, social support, and lasting memorials they

"To care for him who shall have borne the battle, and for his widow, and his orphan …."

deserve in recognition of their service to this Nation.

President Lincoln's words guide nearly 212,000 VA employees who have the privilege of serving veterans today. More than 185,000 employees support VA's health care system, one of the largest in the world. Approximately 13,000 employees are involved with providing benefits to veterans and their families, and over 1,600 employees provide burial and memorial benefits for veterans and their eligible spouses and children.

The delivery of veterans' services is accomplished through VA's 162 hospitals, more than 850 community and facility-based clinics, 43 domiciliaries,

206 vet centers, 57 regional offices, and 120 national cemeteries and 33 other cemeterial installations. VA actively recognizes and preserves America's past and is the caretaker of a significant number of the Nation's historic properties. These properties that belong to the American people include 75 hospital campuses that are historic districts encompassing over 1,600 designated historic buildings, and 66 VA national cemeteries including 59 Civil War-era national cemeteries, that are listed on the National Register of Historic Places. VA has facilities in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and U.S. territories.

Dating back to the earliest days of our country, support for veterans and their families has been a national priority. Veterans' programs have evolved to the comprehensive set of health care, benefits, and memorial services VA provides today. Veterans' programs have four broad purposes, which form the basis for VA's four strategic goals.

- To restore the capability of veterans with disabilities;
- To ensure a smooth transition as veterans return to civilian life in their communities;
- To honor and serve all veterans for the sacrifices they made on behalf of the Nation;
- To contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.

VA also plays a substantial role in ensuring national emergency medical preparedness and providing medical support to the Department of Defense. VA's enabling goal helps ensure continuous focus on providing world-class service to veterans and their families through responsible resource stewardship and effective governance. The enabling goal also provides measures to assess performance in the strategic management of human capital, information technology, capital asset management, and governance.

Just as VA's history has evolved, we expect the needs of veterans to change; how VA responds will continue to transform as well. Whatever veterans' needs are, VA will be ready. Today, there are over 25 million living men and women who served in the armed forces. VA currently provides health care, benefits, and memorial services to millions of veterans as well as eligible survivors and dependents.

Each of the three VA administrations has a field structure to enable it to provide efficient, accessible service to veterans throughout the country. The Veterans Health Administration (VHA) has 21 Veterans Integrated Service Networks (VISNs), integrated networks of health care facilities that provide coordinated services to veterans to facilitate continuity through all phases of health care. The Veterans Benefits Administration (VBA) has 57 regional offices (VAROs) for receiving and processing claims for VA benefits. The National Cemetery Administration (NCA) has five Memorial Service Networks (MSNs), which provide direction, operational oversight, and engineering assistance to the cemeteries by specific geographic area.

The Department accomplishes its mission through partnerships among VHA, VBA, NCA, the Board of Veterans' Appeals (BVA), and Departmental staff organizations by integrating related activities and functions of our major programs. VA provides services and benefits through the following nine major business lines:

Medical Care

VA meets the health care needs of America's veterans by providing primary care, specialized care, and related medical and social support services. Also included are health care education and training programs designed to help ensure an adequate supply of clinical care providers for veterans and the Nation.

Medical Research

The medical research program contributes to the Nation's overall knowledge about disease and disability.

Compensation

The compensation program provides monthly payments and ancillary benefits to veterans, in accordance with rates specified by law, in recognition of the average potential loss of earning capacity caused by a disability, disease, or death incurred in, or aggravated during, active military service. This program also provides monthly payments, as specified by law, to surviving spouses, dependent children, and dependent parents, in recognition of the economic loss caused by the veteran's death during active military service or, subsequent to discharge from military service, as a result of a service-connected disability.

Pension

The pension program provides monthly payments, as specified by law, to needy wartime veterans at age 65 or over or who are permanently and totally disabled. This program also provides monthly payments, as specified by law, to needy surviving spouses and

dependent children of deceased wartime veterans who die as a result of a disability unrelated to military service.

Education

The education program assists eligible veterans, servicemembers, reservists, survivors, and dependents in achieving their educational or vocational goals.

Vocational Rehabilitation and Employment

The vocational rehabilitation and employment program assists veterans with service-connected disabilities to achieve functional independence in daily activities, become employable, and to obtain and maintain suitable employment.

Housing

The housing program helps eligible veterans, active duty personnel, surviving spouses, and selected reservists to purchase and retain homes.

Insurance

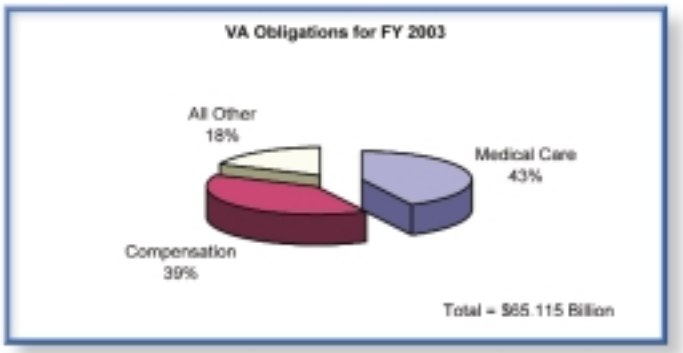
The insurance program provides veterans, servicemembers, and family members with life insurance benefits, some of which are not available from other providers – such as the commercial insurance industry – due to lost or impaired insurability resulting from military service. Insurance coverage is made in reasonable amounts and at competitive premium rates comparable to those offered by commercial companies. The program ensures a competitive, secure rate of return on investments held on behalf of the insured.

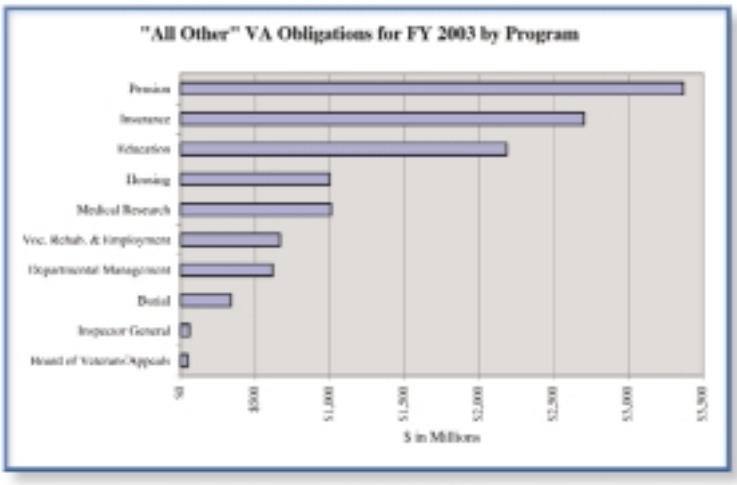
Burial

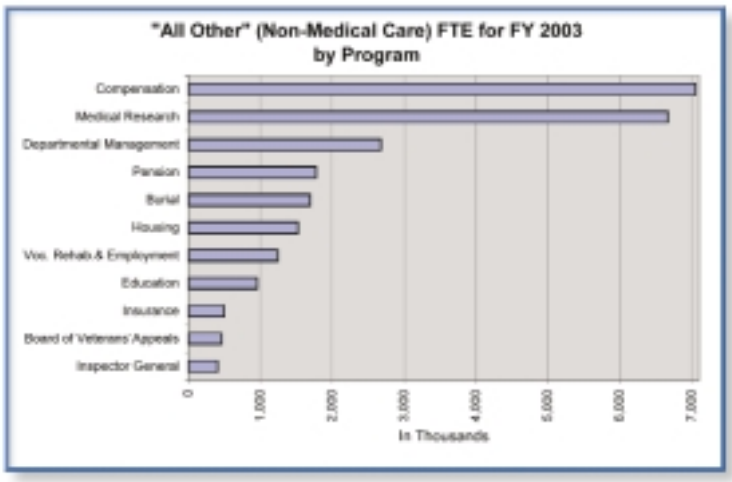
Primarily through the National Cemetery Administration, VA honors veterans with a final resting place and lasting memorials that commemorate their service to the Nation.

Program	FY 2003 Participants
Medical Care	
Unique Patients	4,982,000
Compensation	
Veterans	2,485,200
Survivors/Children	336,800
Pension	
Veterans	346,600
Survivors	231,300
Education	
Veterans/Servicepersons	349,000
Reservists	88,000
Survivors/Dependents	62,000
Vocational Rehabilitation	
Veterans Receiving Services	70,700
Housing	
Loans Guaranteed	489,400
Insurance	
Veterans	1,971,100
Servicepersons/Reservists	2,400,000
Spouses/Dependents	3,010,000
Burial	
Interments	89,800
Graves Maintained	2,574,500
Headstone/Markers (Processed)	335,100
Presidential Memorial Certificates	254,600

In 2003, VA resources totaled $65.1 billion in obligations and nearly 212,000 FTE employees. Over 95 percent of total obligations went directly to veterans in the form of monthly payments of benefits or for direct services such as medical care. The following charts show how VA spent the funds with which we were entrusted and the distribution of FTE.







Who We Serve

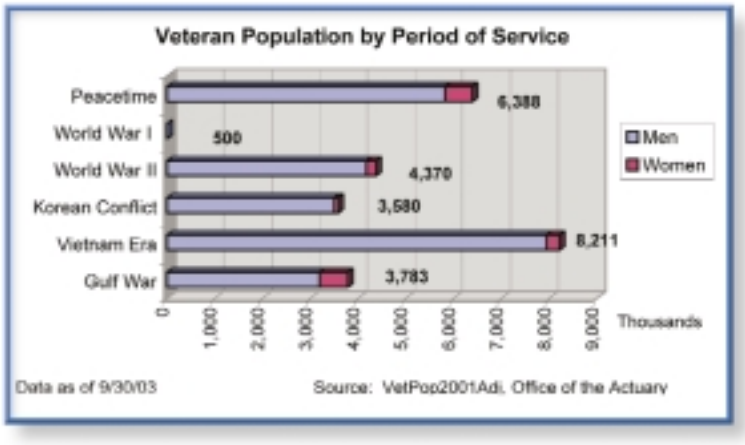
Beginning with our Nation's struggle for freedom more than 2 centuries ago, approximately 42 million men and women have served this country during wartime periods. Based on April 2000 census data, there were about 26.5 million veterans living in the United States and the Commonwealth of Puerto Rico; over 19 million (75 percent) of these veterans served during at least one wartime period. The veteran population decreased by 655,000 in 2003. There are also approximately 40 million family members of living veterans and survivors of deceased veterans. The table to the right depicts the veteran population by period of service.

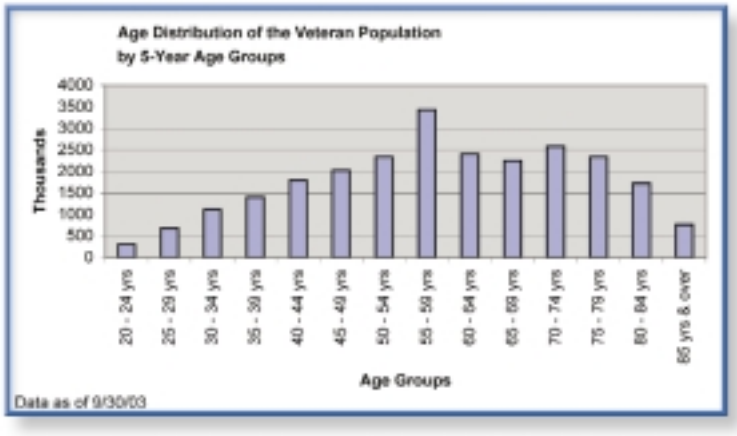
As of September 2003, the median age of all living veterans was 58 years. The number of veterans 85 years of age and older totaled nearly 764,000. In April 1990, there were only 164,000 veterans in this age range. This large increase in the oldest segment of the veteran population has had significant ramifications on the demand for health care services, particularly in the area of long-term care.

As of September 2003, the 1.68 million women veterans constituted 6.7 percent of all veterans. The population of women veterans as a percentage of all veterans is expected to increase as the number of military service women continues to grow. The demographic profile of the female veteran population is generally younger than that of male veterans with the median age of female veterans being 14 years younger than that of male veterans – 45 versus 59.

Our Continuous Focus on the Veteran

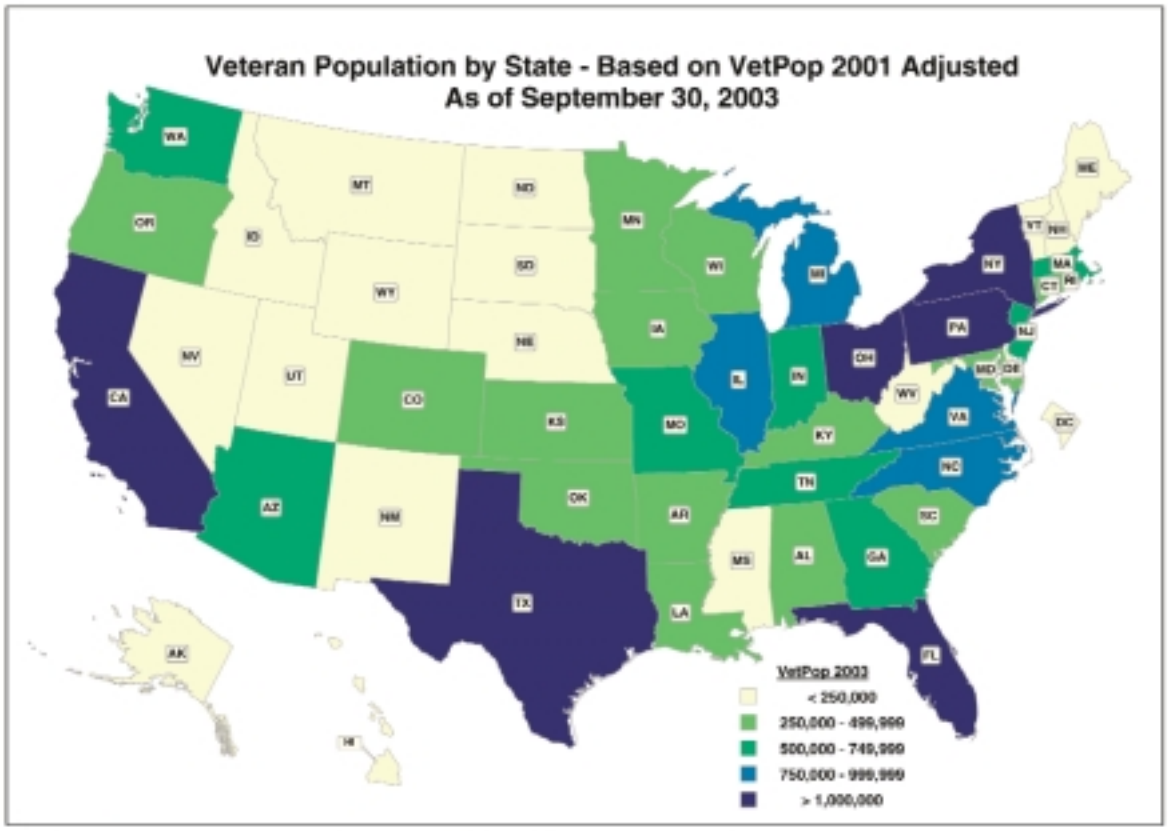
This section of the report presents social and demographic data on the veteran population. Data on the number of veterans by age, sex, period of service, and state of residence are from official VA estimates and projections based upon VetPop2001 data with initial adjustments to reflect the Census 2000 data.





The growing number of women in the military in recent years is reflected in period-of-service differences between male and female veterans. The number of women veterans enrolled in VA's health care system grew from 226,000 in 2000 to 330,000 in 2003, an increase of 46 percent.

Veterans in just three states – California, Florida, and Texas – comprised over 23 percent of the total veterans living in the United States and Puerto Rico as of September 2003. The three next largest states in terms of veteran population are New York, Pennsylvania, and Ohio. These six states account for more than 37 percent of the total veteran population. At the other end of the scale, the three least populous states in terms of veteran population—Wyoming, North Dakota, and Vermont—plus the District of Columbia collectively accounted for less than 1 percent of the total.



Source: Department of Veterans Affairs, Office of Policy, Planning & Preparedness, Office of the Actuary (008A)

How We Measure Performance

VA uses performance measures, a group of evaluation criteria, to assess progress in areas emphasized in our strategic plan. Identification of what to measure begins with an understanding of VA's mission, strategic goals, and objectives. Senior leadership, in conjunction with the Office of Management and Budget (OMB) and our constituents, annually identifies measures that can help us assess key performance aspects of the Department's desired outcomes. We set realistic goals consistent with our budget that reflect expected performance for each measure through the fiscal year. We establish the strategic target when a performance measure is first identified. The measures are then communicated throughout the organization and are included in senior leadership performance evaluations.

In selecting the measures that will best help us achieve our strategic goals, we work to balance output and outcome measures that will aid senior leadership in making management decisions on how best to effectively and efficiently carry out our mission and ultimate goal – to improve the lives of our veterans and their dependents. Output measures track the products of our activities, such as the number of days to process claims for compensation or pension benefits. Outcome measures, such as the Chronic Disease Care Index II and the Prevention Index II, are excellent measures that indicate how well VA is doing in improving the health of veterans in important areas. In 2003, over 40 percent of our key performance measures were outcome-related.

This information is tracked at the highest levels of VA through monthly performance review meetings. Instituted in December 2001, administration and staff office heads report once a month to the Deputy Secretary and outline the general conduct and specific performance of their organizations. They discuss adherence to budget, staffing, major projects, and key performance elements. By doing this, we are linking performance directly to our budget plan on a month-by-month basis. Our intent is to ensure that our programs produce the intended results of the legislation that created them and that the outcomes for veterans are those intended by Congress and the American people. The output measures help us monitor the efficiency and effectiveness of our programs and their management.

Data collection and analysis for performance measures are defined to establish a common understanding for the measure, to describe how and when the data will be collected and interpreted, and to ensure the quality and integrity of the data. This information is presented in part IV in the key measure data appendix beginning on page 180.

In 2003, we had 125 performance measures, of which 27 were designated as 'key.' Key measures represent those few, high-level measures that link directly to Departmental objectives and ultimately to our mission. These 27 key measures provide a balanced view of the overall performance of the Department. The scorecard shown on page 4 summarizes how well we did.

Leadership Initiatives

VA Executive Board and Strategic Management Council

Senior VA leadership communicates regularly to improve performance and increase accountability. In May 2001, the Secretary established two leadership forums to provide a more integrated and collaborative governance, performance review, and decision-making process. The VA Executive Board (VAEB) membership, chaired by the Secretary, includes the Deputy Secretary, Chief of Staff, General Counsel, and Under Secretaries for Health, Benefits, and Memorial Affairs. The Strategic Management Council (SMC) membership, chaired by the Deputy Secretary, includes the six Assistant Secretaries; the Deputy Under Secretaries for Health, Benefits, and Memorial Affairs; the Deputy General Counsel; Chair for the Board of Veterans' Appeals; Chief of Staff; Counselor to the Secretary; and the Senior Advisor to the Deputy Secretary. In most cases, the SMC makes recommendations to the VAEB, which makes key decisions affecting VA.

Early in 2003, the Secretary held a planning conference for the VAEB and SMC members to identify and discuss practical solutions and strategies for accomplishing VA's goals during the next 12 to 18 months. Each administration and staff office also presented their vision for the next 5 to 10 years to be used in updating VA's strategic plan.

Examples of initiatives the VAEB and SMC reviewed and assessed during 2003 include: VA's strategic plan for FY 2003 – 2008; the Department's 2005 budget submission and associated legislative proposal package; capital asset planning and investment recommendations; the cardiac care and prosthetics program evaluations and associated VHA action plans; status updates on the Capital Asset Realignment for Enhanced Services (CARES) plan; completion of major milestones for key information technology initiatives; human resource issues including the Strategic Human Capital Management Plan and policy revisions to the employee performance management and awards programs; implementation of the Enterprise Privacy Program and the Health Information Portability and Accountability Act; cyber security; competitive sourcing; and budget and performance integration.

Business Oversight Board

In 2002, the Secretary established the Business Oversight Board (BOB). The membership of this group, chaired by the Secretary, includes the Deputy Secretary; Deputy Under Secretaries for Benefits, Health, and Memorial Affairs; Assistant Secretary for Management; Assistant Secretary for Information and Technology; Principal Deputy Assistant Secretary for Management; and private sector consultants to the Board. The Deputy Under Secretary for Health for Operations and Management serves as an ex officio member. The BOB meets quarterly to review all major business policy and operations issues involving procurement, collections (primarily medical collections), capital asset management, and business revolving funds (Canteen, General Post Fund, Franchise Fund, Supply Fund). The Board analyzes the cost/benefit of strategic plans approved by the Secretary and identifies, monitors, and manages key business issues facing VA.

One of the board's primary focuses has been on procurement reform. To date, the Department has completed 31 of the 65 reforms recommended by the Secretary's Procurement Reform Task Force to VA's nearly $6 billion-a-year contracting operations. The Department is on track to complete all 65 recommendations by the end of 2004. This will improve efficiency and extend VA's buying power for its health care system.

The board has monitored VA's progress in improving the way the Department manages and tracks collections and ensures accurate insurance information. Through August 2003, compared to prior year performance, VA has realized the following revenue process improvements:

- Collections increased 46.8 percent from $934 million to $1.372 billion through August 2003.
- Billed Amount increased 17.4 percent from $2.856 billion to $3.353 billion through August 2003.
- Accounts Receivable greater than 90 days decreased from 84 percent for 2002 to 40.2 percent through August 2003.

VA is continuing to identify areas of improvement based on comparisons to metrics used in the private sector health care industry.

The board was instrumental in refining the business case for replacing two obsolete VA Consolidated Mail Outpatient Pharmacies (CMOPs). We expect the two new facilities will be online within the next 18 months. The replacement of these facilities will increase VA's ability to fill mail order prescriptions by approximately 20 million per year. With the board's support, VHA adopted a blended rate policy that averages the salary and operations cost across all seven CMOPs. This policy permits a seamless shifting of work to other CMOPs when necessary and allows all CMOP customers to benefit from cost avoidances achieved through the use of labor-saving technologies implemented at any single CMOP facility. When VA experienced severe manufacturing backorders causing numerous shortages and/or unavailability of some critical generic pharmaceuticals, the board was instrumental in pursuing an innovative acquisition solution for a continued supply source of critical pharmaceutical drug items.

VA is developing and implementing market-based plans for restructuring the Department's capital assets with the goal of reducing the funds needed to operate and maintain the capital asset infrastructure. The savings can then be used to provide enhanced care for veterans in the most advantageous settings and locations. As part of its oversight function, the board continued to coordinate the work of existing oversight groups and activities in an effort to improve overall business process efficiency and effectiveness.

Monthly Performance Reviews

The Deputy Secretary held 11 monthly performance reviews during 2003. All Under Secretaries and Assistant Secretaries reported on the status of their organization's financial, workload, performance, and major projects describing causes for any variances from planned activities, problems with ongoing work, and potential issues with future plans. During these meetings, senior VA leadership discussed solutions and made decisions regarding the Department's path forward. This effective form of communication helped to address the Secretary's top priority issues such as disability claims processing times and patient waiting times for appointments. These meetings provide senior managers with an increased, in-depth understanding of issues and accomplishments affecting the entire Department.

Public Benefits

VA's inherent responsibility is to serve America's veterans and their families with dignity and compassion, and to be their principal advocate for medical care, benefits, social support, and lasting memorials. VA promotes the health, welfare, and dignity of all veterans in recognition of their service to the Nation. VA positively impacts the lives of veterans and their families, as well as the Nation as a whole. As stewards for the government, we strive to improve the efficiency, effectiveness, and management of all VA programs. The following illustrations are a few examples of VA innovation and our desire to improve.

Medical Care

A recent article in the *New England Journal of Medicine*, "Effect of Transformation of the Veterans Affairs Health Care System on the Quality of Care," highlighted VHA's success over the past several years in substantially improving quality of care. Success was measured two ways: 1) by comparing VA quality of care indicators for 1994-95 with indicators for 1997-2000, and 2) by comparing VA quality of care indicators for 1997-2000 to similar indicators from the Medicare fee-for-service system for the same period. In the VA-to-VA comparison, the findings for 2000 showed that the percentage of patients receiving appropriate care was 90 percent or greater for 9 of the 17 quality of care indicators and 70 percent or greater for 13 of the 17 indicators. When VA was compared with the Medicare fee-for-service system for 11 similar quality of care indicators, VA performed significantly better on all 11 for the period 1997-1999. In 2000, VA's results exceeded Medicare on 12 of 13 similar indicators. Although several factors are discussed that influenced VA's performance, the authors stressed that the fundamental catalyst was the reengineering of VA health care, which included implementation of a systematic approach to the measurement of, management of, and accountability for quality.

Although improvements in clinical knowledge are critical in improving care, technology also plays an important role. The ability to access critical patient information or medical knowledge quickly and reliably is becoming increasingly important. VISN 2 was named one of the Nation's Most Wired Hospital and Health Systems in *Hospitals and Health Networks*, the journal of the American Hospital Association (AHA). The VISN was selected following a benchmarking study conducted by the AHA in cooperation with McKesson Information Solutions, Quest Communications International, and the Healthcare Information and Management Systems Society. VISN 2 was recognized for its patient safety/risk management program Web site. VA is at the forefront of efforts to incorporate technology that enables clinicians, managers, and patients to seamlessly access timely and accurate information.

In the field of electronic health records systems, VHA is the vanguard for national standards. The Department of Health and Human Services recently announced an initiative to adopt uniform national standards, based on standards already used by VHA, throughout the federal government for electronic health records. VHA's electronic health record system, identified by the Institute of Medicine as one of the best in the Nation, is fully electronic, portable, and readily accessible. VHA developed the electronic record system to provide a single place for health care providers to review and update a patient's health record and order medications, special procedures, X-rays, diets, laboratory tests, and nursing orders. In VHA's system, all aspects of a patient's record are integrated, including active problems, allergies, current medications, laboratory results, vital signs, hospitalizations, and outpatient clinic history. These records are all password-protected to guarantee patient privacy. VHA's dedication to operating a state-of-the-art electronic health record system has improved the quality of VHA care and patient safety. Selected features of the system include:

- a checking system to alert clinicians if an order they are entering could cause a problem;
- a notification system that immediately alerts clinicians to clinically significant events;

- a patient posting system that alerts health care providers to issues specifically related to the patient, including crisis notes, adverse reactions, and advance directives;
- templates to automatically create reports;
- an electronic clinical reminder system that alerts clinicians of certain actions such as examinations, immunizations, patient education, and laboratory tests that need to be performed;
- remote data view to allow clinicians to see the patient's medical history at all VA facilities where the patient was seen.

Homelessness is a problem throughout the country, and veterans comprise approximately 25 percent of the homeless population. During the past year, more than 20,000 homeless and at-risk veterans received medical care from VHA, and more than 19,000 veterans received transitional and supported housing, directly or in partnerships with grant and per diem or contract residential care providers. Additionally, VA announced the establishment of a program to provide permanent housing, health care, and other supportive services to those experiencing chronic (long-term) homelessness. Eleven sites were awarded almost $35 million with funding from the Departments of Housing and Urban Development, Health and Human Services, and VA. Also, VA, through its Homeless Providers Grant and Per Diem Program, presented 44 separate awards to providers in 25 states, 5 of which were states VA had targeted as areas where homeless veterans' needs are most underserved (Idaho, Kansas, Montana, New Hampshire, and Wyoming). With the addition of these awards to other grant and per diem program actions, VA now supports nearly 7,000 beds that are available to homeless veterans.

VHA increased scientific career opportunities for under-represented minorities. New efforts included: a) supporting institutional collaborations between VA and minority-serving institutions, involving students and faculty partnering with VA mentors; b) providing applied training in research on VA-funded projects to participants ranging from high school students and college undergraduates, to graduates and pre-doctoral students; and c) offering a supportive career path for mentored research within VA for people having completed their clinical fellowships or doctoral training within the last 2 years. The program provides a full salary to awardees for 3 years. This program, modeled after successful programs offered by the National Institutes of Health and the Robert Wood Johnson Foundation, strengthens VHA's partnerships with historically black colleges and universities, Hispanic-serving institutions, tribal colleges and universities, and other institutions with sizeable concentrations of Asian Americans, Pacific Islanders, native Hawaiians, and Alaska natives.

Rural American Indian veterans and native Alaska veterans are benefiting from a new formal agreement between VHA and the Department of Health and Human Services that augments historical local collaboration between VHA and the Indian Health Service (IHS). This agreement advances efforts to share information and technology, develop health promotion programs, and allow joint appointments, financial reimbursements, and provider certification. Formal collaboration, including co-sponsoring of continuing medical training for health care staff, combines the strengths and expertise of both VHA and IHS to increase access and enhance services.

Dr. Susan H. Mather, VA's Chief Public Health and Environmental Hazards Officer, received the Wyeth Award for Women's Health. This award is sponsored annually by Good Housekeeping magazine and the Center for American Women and Politics to honor women in government whose work exemplifies how government improves people's lives. Since assuming leadership of the Women Veterans Health Program, Dr. Mather has established eight Women Veterans Comprehensive Health Centers to develop new and enhanced programs focusing on the unique health care needs of women veterans. This included expanding sexual trauma programs at all VHA facilities, developing guidelines for women's health programs, and hiring women veteran coordinators on a full-time basis at VA medical centers. As a result, women veterans now have increased access to both general and women-specific services offered in a woman-friendly environment.

Dr. Douglas D. Richman received VA's Middleton Award, the Department's highest honor for biomedical investigators. Dr. Richman is directly responsible for major advances in the medical treatment of people with AIDS and HIV. As director of the Research Center for AIDS and HIV Infection at the San Diego VAMC and the Center for AIDS Research at the University of California, San Diego, he is noted for his studies of zidovudine, or azidothymidine (AZT), the first drug approved in the United States to treat HIV. He and his colleagues established the effectiveness of the drug in clinical trials in the late 1980s. Later studies by Dr. Richman revealed the emergence of AZT-

resistant strains of HIV. The appreciation of the importance of HIV drug resistance and his pioneering studies of combination therapy led to the development in the 1990s of a highly active antiretroviral therapy. Recent research by Dr. Richman showed that more than three-quarters of HIV patients in the U.S. with a measurable viral load carry strains of the virus that are resistant to drug therapy, which underscored the need for resistance testing to help identify medications that will be effective for a given patient. Amid these findings, Dr. Richman is in the forefront of efforts that may be of particular importance in the development of an AIDS vaccine. The Middleton Award is given each year to a senior VA investigator for major achievements in areas of prime importance to VA's research mission.

VHA's Center for Veterans Enterprise collaborated with General Dynamics Corporation to hold a Veterans Appreciation Day aimed at increasing opportunities for small businesses. In early April, General Dynamics made its buyers and program managers available at its locations throughout the country to meet with veterans interested in doing business with the company.

The Department of Energy (DOE) and the Environmental Protection Agency (EPA) selected several VA medical centers to receive the Energy Star award for outstanding achievement in efficient use and conservation of energy. The award is given to facilities with energy performance in the top 25 percent of their peers (e.g., both VA and non-VA hospitals are grouped together) using an Internet-based tool called Portfolio Manager. Recently, VA began an energy pilot program to test a new approach to contracting for energy investments in VA medical facilities in Pennsylvania, West Virginia, New Jersey, California, and Nevada.

Medical Research

VA conducts medical research on a wide array of veterans' illnesses and disabilities, which also benefits the U.S. population as a whole. Some of the exciting advances VA achieved in 2003 include:

- Identifying two therapies that improve several symptoms of Gulf War veterans' illnesses. An editorial in the *Journal of the American Medical Association* termed the study of the first major treatment trial of Gulf War veterans reporting serious health problems a "remarkable achievement."
- Determining that using the anticonvulsive drug, divalproex, in combination with either of two commonly used antipsychotic drugs, olanzapine and risperidone, results in decreased suffering and shorter hospital stays for schizophrenia patients.
- Identifying a synthetic compound that reverses bone loss in mice without affecting the reproductive system, as does conventional hormone replacement therapy. The finding may lead to new treatments to prevent osteoporosis for millions of people and lead to safer alternatives than the hormone treatments recently shown to present greater risks than previously thought.
- Discovering that cereal fiber (such as that found in dark breads and high-fiber breakfast cereals) lowered the risk of stroke and the risk of dying from heart disease. Neither fruit nor vegetable fiber was associated with similar benefit.
- Determining that vaccinated elderly patients are less likely to be hospitalized for flu complications, such as pneumonia, cardiac disease, and stroke. Fewer deaths also resulted in patients who received flu shots. This adds authority to the importance of public efforts to promote vaccination programs, particularly to older Americans.
- Issuing a Request for Proposals soliciting new Research Enhancement Award program applications highlighting the areas of vaccine development and airborne pathogens/toxins. VHA expects to fully fund six new proposals and anticipates that priority areas related to bioterrorism will be represented.
- Developing DNA vaccine technology and successfully demonstrating the efficacy of such vaccines against the intracellular bacterial pathogen, Listeria monocytogenes. The studies suggest that the potential exists for developing DNA vaccines to protect the human population against intracellular microbial agents. A similar result has been demonstrated against the human parasite, Leishmania donovani. VA investigators continue their efforts to identify molecular approaches that could be used to enhance the immunogenicity of the DNA vaccine.

Benefits

A cornerstone of VA Secretary Principi's pledge to the Nation in 2001 was to reduce the pending workload in VBA to 250,000 rating

claims by September 30, 2003. Shortly after taking office, the Secretary created a VA Claims Processing Task Force, chaired by the now-VBA Under Secretary for Benefits, to convert that pledge to an actionable plan. VBA devoted much of the last two fiscal years to implementing the recommendations of the task force. On September 30, 2003, the Secretary made good on his pledge when the VBA inventory reached 253,000 claims. Given the fact that the VBA inventory crested at over 432,000 disability claims in early 2002, the achievement of this goal represents a remarkable 41.4 percent reduction in pending claims. In order to achieve this aggressive goal, VBA developed and executed a comprehensive performance management system that increased monthly output by 71 percent, from an average of 40,093 in 2001 to 68,468 claims in 2003.

The Secretary also pledged that claims would be completed in 100 days. While this goal was not achieved at the end of 2003 (claims processed in September 2003 took an average of 156 days), it is significant to note that the age of the inventory of pending claims was reduced from the January 2002 level of 202 days to 111 days. With the underlying age of pending claims approaching 100 days, VBA is now positioned to make significant progress toward reaching the timeliness goal of 100 days by the end of 2004.

The improvements by VBA in terms of reduced inventory numbers and age were not made at the expense of quality. The accuracy of rating benefit entitlement, the measure most related to claimants receiving the proper rate of pay, is now at 85 percent. This is an improvement from the 81 percent accuracy level in 2002. Further, the improvements made by VBA in disability claims processing were not made at the expense of other VBA programs. The Education Service reduced the time to process original education claims to 23 days. Two years ago it took 50 days. VBA's insurance program is one of the best in the industry, processing claims in under 3 days. Finally, veterans needing a Certificate of Eligibility for the VA loan guaranty program can receive the document in seconds through improved technology rather than the weeks it took in the past.

Fiscal year 2003 was a remarkable year for VBA. To be sure, challenges remain. In 2004, VBA will turn greater attention to the inventory of appeals pending at regional offices, emerging complex issues such as the disability claims associated with Afghanistan and Iraq, and further improvements in quality through enhanced training efforts. The lessons learned in the area of performance management should serve VBA well in addressing these new challenges.

Burial

Primarily through the National Cemetery Administration, VA honors veterans with a final resting place and lasting memorials that commemorate their service to the Nation.

VA provides interment of veterans and eligible family members upon demand. In 2003, almost 90,000 decedents were interred in 120 VA national cemeteries.

VA provides headstones and markers for the graves of eligible persons in national, state, other public, and private cemeteries. Presidential Memorial Certificates, bearing the President's signature, are issued to recognize the contributions and service of honorably discharged deceased veterans. In 2003, VA processed more than 335,000 applications for headstones and markers and issued over 254,600 Presidential Memorial Certificates. VA also provides an American flag to drape the casket of an eligible deceased veteran. Far more veterans receive a headstone or marker, Presidential Memorial Certificate, and/or American flag from VA than are buried in a national cemetery. Delivery of these benefits is not dependent on interment in a national cemetery.

In 2003, VA maintained about 2.6 million graves and developed nearly 7,000 acres in a manner befitting national shrines, so that bereaved family members are comforted when they come to the cemetery for the interment, or later to visit the grave of a loved one.

Financial Highlights

Pursuant to the requirements of 31 U.S.C. 3515 (b), VA's financial statements report the financial position and results of operations of the Department. Deloitte & Touche, LLP, performed the audit of the statements under the direction of the Office of Inspector General. While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget (OMB), they are, in addition to the financial reports, used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the authority to do so.

VA received an unqualified opinion on the Department's financial statements for 2003 and 2002 from the external auditors, Deloitte & Touche, LLP, continuing the tradition of financial management excellence first achieved in FY 1999. As a result of their audit work, Deloitte & Touche, LLP reported two material weaknesses and two reportable conditions. The two material weaknesses and one reportable condition were repeat findings. The Department continues to make significant progress on correcting the repeat material weaknesses and reportable condition and plans are underway to address the new reportable condition -- medical malpractice claims data.

VA programs operated at a net cost of $162.5 billion in 2003 compared with $210.3 billion in 2002. The calculation of the actuarial liability for future years' veterans' compensation and burial benefits, which increased by $105.6 billion during 2003 and by $157.3 billion in 2002, heavily impacts each year's cost. The actuarial liability for future years' veterans' compensation and pension (C&P) programs increased in FY 2003 due to a change in the valuation date and an increase in estimates of excess benefit rates during FY 2003. Excluding the change in this actuarial liability from the net cost would result in an adjusted net cost for VA's programs of $56.9 billion and $53.0 billion for 2003 and 2002, respectively. The majority of this increase applies to two programs--compensation, $2.7 billion, and medical care, $1.6 billion.

An examination of assets and liabilities reported on VA's balance sheets reveals two lines with changes greater than $1 billion. The largest increase is in the Federal Employee and Veterans Benefits Liabilities, which is related to the increase in the actuarial liability for future compensation and burial benefit payments. It should be noted that the future cash flows to liquidate the Federal Employee and Veterans Benefits Liabilities are not supported by any identifiable assets, as they are anticipated to be funded from the future general revenues of the U.S. Government. The change in the compensation and burial benefit liabilities is the most significant component of the change in Cumulative Results of Operations. The second significant change relates to a decrease in the liability provision for future losses on credit reform guaranteed loans.

Medical Care collections continue to improve. In 2003, collections totaled approximately $1.5 billion, which builds on the $1.2 billion collected in 2002, and is a significant increase over the 2001 total of $0.8 billion. VA plans to continue to increase these collections, reaching $1.75 billion in 2004 and $2.0 billion in 2005.

In the area of debt management, VA exceeded the goals established with the Department of the Treasury for the Treasury Offset Program (TOP) and the cross servicing program. By the end of 2003, VA referred $255 million (97 percent) of eligible delinquent debt to Treasury for offset under TOP. Under the cross-servicing program, VA referred $155 million (96 percent) of eligible debt to Treasury for collection.

During 2003, the Department aggressively used the governmentwide commercial purchase card program. Over 2.9 million purchase card transactions were processed, representing over $1.5 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA over $16 million in credit card rebates.

Under 38 U.S.C. 8161, et seq., VA entered into several enhanced-use leases in 2003 to maximize use of underutilized VA property. In return, VA has received fair consideration including goods, services, or space beneficial to VA's mission. In some cases, the lessee provides "in-kind" consideration through a third party, including an independent trust. Once established, the independent trust assumes obligations to provide in-kind consideration to the Department. VA is not party to the trust agreement and does not own or control the trust, and has no beneficial, residual, or other interest in the trust estate other than the assets that are specifically deposited into the enhanced-use leasing account for the purpose of providing in-kind consideration to VA. This arrangement has proven to be very beneficial to the Department. Consequently, VA uses the enhanced-use leasing program to address its capital and resource requirements, and anticipates that most of its in-kind benefits will be received through these types of third-party providers.

In an effort to improve internal controls over finance, acquisition, and asset management, VA's three administrations are currently being realigned in a way that will maximize both the effectiveness and efficiency of their operations. VHA's realignment efforts include identifying operations that could be centralized at the VISN and facility levels to promote greater efficiency. VHA's VISN office structure now includes a Chief Financial Officer, Chief Logistics Officer, Capital Asset Manager, and Financial Quality Assurance Manager (FQAM). The new VISN FQAM will provide oversight over finance, logistics, and capital asset management; conduct internal audits; provide consultative services to facilities; facilitate performance improvement; ensure timely implementation of financial policies issued by VA's Office of Management (OM); and serve as a liaison to external auditors and OM.

VBA is centralizing field finance, acquisition, and asset management activities into product lines with a clear line of control to the VBA CFO. VBA plans to conclude its realignment efforts by September 2004. NCA plans to establish one site in NCA for each of the three primary activities – finance, acquisition, and asset management. At this time, the greatest proportion of contracting, finance, and accounting support for the national cemeteries is provided by a VA medical center or regional office. NCA plans to begin assuming direct responsibility for these business activities over a period of the next several years.

Systems, Controls, and Legal Compliance

The auditors' report on internal control, prepared at the completion of VA's FY 2003 financial statement audit, includes two repeat material weaknesses: "Information Technology (IT) Security Controls," and "Integrated Financial Management System." In the IT finding, the auditors reported that VA's program and financial data continue to be at risk due to serious weaknesses related to control and oversight over access to information systems. In the second finding, the auditors reported continuing difficulties related to the preparation, processing and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.

The Department has made significant progress in correcting these material weaknesses. Resources have been maximized to make significant improvement in the overall security posture. Also, the Department has attained significant milestones toward the implementation of the integrated Core Financial and Logistics System. VA closed two reportable conditions reported in the prior year.

The auditors' report on compliance with laws and regulations, also prepared as a result of the FY 2003 financial statement audit, discusses Departmental non-compliance with the Federal Financial Management Improvement Act (FFMIA) requirements concerning "Lack of Integrated Financial Management System" and "Information Technology (IT) Security Controls." Except for these instances of non-compliance, the report concludes that for the items tested, VA complied with those laws and regulations materially affecting the financial statements.

Compliance with the Federal Managers' Financial Integrity Act (FMFIA)

On a regular basis, VA managers monitor and improve the effectiveness of management controls associated with their programs and financial systems. This continuous monitoring, and other periodic evaluations, provide the basis for the Secretary's annual assessment of and report on management controls as required by FMFIA, commonly referred to as the Integrity Act.

FMFIA Report on Material Weaknesses and Non-conformances

VA managers are required to identify material weaknesses relating to their programs and operations pursuant to sections 2 and 4 of the Integrity Act as defined:

- Section 2 seeks to assess internal controls necessary to ensure compliance with applicable laws; protect against loss from waste, fraud, and abuse; and ensure receivables and expenditures are properly recorded.
- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

Progress on Material Weaknesses

VA managers continue to make progress in correcting existing material weaknesses and non-conformances. The 2003 Consolidated Financial Statements Audit Report disclosed no new material weaknesses. In addition, there are no new management control material weaknesses disclosed or reported.

At the end of 2002, four material weaknesses and two nonconformances were carried forward in 2003. In addition, Deloitte & Touche, LLP, reported two repeated material weaknesses from the 2002 audit report – "Information Technology Security Controls" and "Lack of Integrated Financial Management System."

We are pleased to report that corrective actions were taken during 2003 to warrant closure of one of the four Integrity Act management control material weaknesses –"Housing Credit Assistance Program." We plan to close another, "PAID System–Mission Performance," by October 2003. The remaining four material weaknesses (two audit material weaknesses and two management control material weaknesses) will be corrected during 2005 and 2006.

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis. The Department faces challenges in building and maintaining financial management systems that comply with FFMIA. Under FFMIA, VA is substantially compliant with the exception of "Federal financial management systems requirements." VA's noncompliance in this area will be resolved when the Core Financial and Logistics System (CoreFLS) is fully implemented in 2006.

The following tables provide the current status of existing audit material weaknesses and management control material weaknesses:

Audit Material Weaknesses

Description	Current Status	Resolution target date
Information Technology Security Controls – VA's assets and financial data are vulnerable to error or fraud because of weaknesses in information security management, access to controls and monitoring, and physical access controls.	Plans are being implemented to address this weakness. The Department has maximized limited resources to make significant improvement in VA's overall security posture in the near term through prioritizing Federal Information Security Management Act remediation activities.	September 2005
Lack of Integrated Financial Management System–Difficulties exist in the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements.	The Core Financial and Logistics System project will replace VA's current financial management system. VA is beginning migration of core accounting functions from mixed systems to CoreFLS. Full implementation of CoreFLS will correct this deficiency.	March 2006

Management Control Weaknesses

Description	Current Status	Resolution target date	Section 2	Section 4
PAID System–Mission Performance–VA's central payroll and personnel system, PAID, lacked the ability to expand.	The PAID system has been modified to allow an employee's pay/benefits to be allocated to four fund/cost center combinations and to pass this distribution labor cost to FMS.	October 2003		X
Internal Control Weaknesses in the Compensation and Pension Payment Process–Erroneous and fraudulent payments were found.	Procedures are underway to augment internal controls in the area of erroneous payments. Measures are being taken to pinpoint the amount of overpayments in each program area and to determine the nature and causes of the overpayments.	October 2004	X	
Compensation and Pension System–Lack of Adaptability and Documentation – The system is outdated and needs to be replaced.	Remediation plans are in place for total conversion to VETSNET.	January 2005		X

Compliance with the IG Act Amendments of 1988

VA collected $25.5 million in disallowed costs from VA-contracted suppliers in 2003.

The IG Act requires management to complete all final actions on recommendations within 1 year of the date of the IG's final report. Departmentwide, there are 8 reports that have been pending final action for over 1 year. Since 1996, there has been a reduction in the number of unimplemented reports pending final action. Delays were incurred in implementing recommendations as a result of the development and implementation of new regulations or directives, collection and/or write-off activities, and system changes.

Disallowed Costs and Funds to Be Put to Better Use Reporting Period October 1, 2002 – September 30, 2003 (dollars in millions)

	Disallowed Cost		Funds to Be Put to Better Use	
	Reports	Value	Reports	Value
Balance 9/30/02	6	$1.2	15	$474.3
New Reports	35	$24.4	37	$44.9
Total	41	$25.6	52	$519.2
Completed	36	$25.5	41	$342.9
Balance 9/30/03	5	$0.1	11	$176.3

OIG Reports Pending Final Action Over One Year After Management Decisions Have Been Made

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
No. of Reports	80	65	42	36	28	19	14	8

Source: "*Compliance with the IG Act Amendments of 1988*" section reported by Office of Inspector General, Audit Follow-up Division.

Prompt Payment Act

VA continued to significantly improve vendor payment processes throughout 2003. The Department processed 5.9 million invoices subject to the Prompt Payment Act, worth over $10.1 billion, with nearly 97 percent paid on time. In 2003, interest payments VA-wide declined by $470,000 to $907,000, a 34 percent improvement over 2002 levels. At the same time, discounts earned increased by $526,000 (30 percent) over 2002 levels and we expect this improved performance level to continue. Combined, payment processing improvements saved VA $996,000 in 2003—savings the Department can use to improve veterans care.

VA's audit recovery efforts over improper vendor payments reflect similar improvements. Fiscal year 2003 collections of duplicate payments and the recovery of unapplied vendor statement credits increased $771,000 (34 percent) over 2002 levels, and 2003 collections exceeded $3 million overall. Improved payment oversight has also driven a 41 percent reduction in duplicate payments identified and cancelled prior to disbursement, compared to 2002 levels.

During 2003, the Department aggressively used the governmentwide commercial purchase card program. Over 3.2 million purchase card transactions were processed, representing over $1.7 billion in purchases. The electronic billing and payment process for centrally billed card accounts earned VA over $18 million in credit card rebates.

VA's Prime Vendor Payment System automates payments under a nationwide prime vendor centralized purchasing contract. In 2003, 138 VA medical centers used the Prime Vendor System to electronically process over 434,000 transactions worth over $3.1 billion.

VA's Travel Management Centers serve veterans and employees who travel frequently. The billings are transmitted electronically from each Travel Management Center, and payment is sent daily through the Department of the Treasury's Electronic Certification System. In 2003, the travel management program processed 116,000 transactions, disbursed payments of over $19 million, and earned approximately $224,000 in rebates.

VA's Financial Services Center (FSC) continued to provide vendor payment history on the Internet. Currently, the new Vendor Inquiry System Internet application, implemented this year, stores almost 4 years of information on invoices. So far this year, 5,080 vendors have registered and made over 105,300 queries using the new Internet application to assist them with payment identification.

The FSC has also continued to improve the Intranet online invoice certification process, which allows invoices to be certified electronically and sent for payment. VA's Online Invoice Certification System allows the FSC to notify certifying officials via e-mail of any invoice requiring payment certification. Through the Intranet, the certifying official can view, certify, and forward the invoice to the FSC for payment processing, reducing the processing time to hours rather than days. In 2003, a total of 3,160 individuals were assigned user IDs to access the system. During 2004, the FSC plans to expand the certified invoice service throughout VHA and will implement the online system at all facilities as part of the VHA payment centralization initiative.

The President's Management Agenda

The President's Management Agenda, announced in the summer of 2001, is an aggressive strategy for improving the management of the federal government. It focuses on five areas of management weakness across the government where the most progress can be made. VA is working closely with the Office of Management and Budget (OMB) to resolve problems identified in each of these areas. OMB issues reports quarterly and uses a 'stoplight' scorecard to reflect progress made by each federal agency. The following chart identifies the five areas of government focus and the scores from 2001 compared with those of September 2003. VA is making good progress in all areas and is committed to implement them fully.

In addition to these five areas, VA is also reporting on two additional agency-specific areas of focus:

- Improved coordination of VA and DoD programs and systems
- Faith-based initiatives.

The following is a discussion of VA's progress in each of these areas.

Strategic Management of Human Capital

VA continues to face many challenges in the area of human capital. By 2007, 36 percent of VA's workforce will be eligible for regular retirement. VA took numerous measures to address this issue during 2003. One of the most significant achievements was the accomplishment of the Department's strategic human capital plan, which was approved by the Secretary in July 2003. This plan includes an overview of past and projected workforce trends; summaries of workforce plans developed by all organizational components; and strategies to ensure that VA recruits, retains, and develops a quality and diverse workforce to serve veterans.

Other accomplishments include the implementation of online entrance/exit surveys. The surveys were designed to capture the reasons why employees chose to work for VA or why they elected to leave VA. As of August 2003, approximately 1,200 surveys were completed. The results are available at the national and facility levels and can be sorted by organization, occupation, age categories, and many other selective components. The first national summary of data was published in October 2003 on the Office of Human Resources Management's Web site.

VA believes it can attain a highly skilled, customer-focused workforce through the High Performance Development Model. The systemwide framework aligns around a set of core competencies – personal mastery, technical skills, interpersonal effectiveness, customer service, creative thinking, flexibility/adaptability, systems thinking, and organizational stewardship. Achievement of these competencies would enhance every employee's abilities.

In August 2003, VA instituted a Web-based management support system available to managers and supervisors 24 hours a day 7 days a week

providing guidance on the full range of workforce issues.

VA entered into an interagency agreement with the Office of Personnel Management in July 2003. The agreement outlines the phased deployment of USA Staffing, an integrated online software staffing solution that automatically generates vacancy announcements that can be uploaded to the USAJOBS/Monster.com Web site. USA Staffing also permits applications for vacancies to be submitted online, reduces the time it takes to process applications, and issues automated certificates of eligible candidates.

In 2003, the Secretary approved a plan presented by VA's Task Force on the Employment and Advancement of Women, which outlines strategic goals that include measurable objectives for correcting imbalances in the employment and advancement of women at VA. The goals are to: (1) increase internal and external recruitment and retention programs; (2) develop and enhance education and training programs; and (3) foster a corporate culture that proactively integrates women into GS-13, GS-14, GS-15, and Senior Executive Service positions.

Competitive Sourcing

VA utilizes competitive sourcing and the FAIR Act as part of its basic business management approach, which is predicated on VA's efforts to deliver timely and high-quality service to our Nation's veterans and their families. As part of its normal business operations, VA continuously assesses the demand for benefits and services from veterans and ensures that the Department has the capabilities to meet these needs.

This market-based analysis often results in contracts for medical care and other services in specific geographical areas when it is determined to be more cost effective to obtain the services from the private sector than to hire doctors, nurses, and other staff with needed skill sets. This approach does not focus on moving a certain established number of jobs from the public sector to the private sector – but rather on providing veterans and taxpayers the best value possible.

VA is committed to continuing the approach of strategically identifying opportunities for competitive sourcing. VA hired a competitive sourcing staff and developed a directive and 5-year plan (2003 – 2008) that calls for studying 55,000 FTE across 19 ancillary functions within VHA. VA also developed a tracking system, which is currently being tested, to assess progress in this initiative. The Office of Management and Budget (OMB) approved VA's plan and streamlined three-tiered process in April 2002.

One of the reasons OMB approved VA's new competitive sourcing process is due to VHA's exemption under section 8110(a)(5) of title 38 U.S.C. This statute states that VHA funding to carry out any activity in connection with a study comparing the cost of VA providing commercial or industrial products and services is prohibited unless such funds are specifically appropriated. VHA had no such funds appropriated for 2003. However, VA's initial interpretation was that the prohibition would apply only to a formal A-76 cost comparison and not to most, or all of the streamlined process planned by VA. In April 2003, VA was in the process of executing the OMB-approved competitive sourcing plan, starting with laundry service and food production, when VA's General Counsel (GC) opined that the prohibition applied to VA's three-tiered process. VHA continued to make progress in competitively sourcing laundry and food service while seeking a clarification from VA's GC regarding application of their earlier opinion in conjunction with other statutory authorities. Upon receiving GC clarification, all competitive sourcing studies were terminated within VHA in August 2003. VA is now seeking remedies to the prohibition through either a separate appropriation, or revision to title 38. In the meantime, VA is examining other alternatives that do not violate the prohibition of title 38 while potentially yielding cost savings that would be obtained if VHA were permitted to continue with competitive sourcing studies.

At the end of 2002, VA had completed studies on approximately 4,000 FTE, with an estimated cost savings of $25 million. In 2003, VA began the study of 1,380 FTE within the VHA laundry service, and 1,500 FTE within the Veterans Canteen Service when the studies were terminated due to the prohibition. VA completed one standard competitive sourcing competition in 2003 within VBA. The net result was to outsource the VBA property management function. VA's internal reengineering efforts produced a Most Efficient Organization (MEO) proposal that presented an estimate of more than $18 million (12.5 percent) over the term of performance. This proposal also included a reduction in 156 FTE (from 276 to 120) performing the function. Although the MEO proposal demonstrated significant improvements in efficiencies and cost reductions, VA will ultimately save an estimated $47 million (27.1 percent) over the 4.5-year performance period by outsourcing the function to industry.

NCA increased its contracting out for full maintenance services from 26 national cemeteries in 2002 to 36 of the 120 national cemeteries in 2003. In addition, NCA contracted out an equivalent of about 240 FTE in connection with the National Shrine Commitment. This competitively sourced function is the equivalent of approximately 20 percent of NCA's 2003 commercial activities based on VA's 2003 FAIR Act inventory.

Financial Management

VA continued its tradition of excellence in financial management during 2003.

Audit Opinion and Improved Performance - VA received an unqualified opinion on the Department's financial statements from the auditors, continuing the success first achieved in 1999. Interest penalties continued to decrease to below $1 million, approximately 33 percent below the 2002 level. Discounts increased to nearly $2.2 million, 25 percent above last year's level. Following are some additional ways VA improved its financial performance in 2003.

Material Weaknesses – VA took steps to address previously reported material weaknesses in three areas – erroneous and fraudulent payments in the compensation and pension (C&P) payment process, the Personnel and Accounting Integrated Data (PAID) system lack of ability to expand, and security-related vulnerabilities in PAID and the Financial Management System (FMS). VA modified the PAID system to provide labor distribution functionality. Final actions to effect this functionality will be complete in October 2003. In addition, actions to correct security-related vulnerabilities in the PAID and FMS systems have been scheduled, and new control procedures are being implemented as recommended by VA auditors. Two FMFIA material weaknesses were closed – Drug Control and Housing Credit.

CoreFLS – The CoreFLS project office successfully completed Build 1.2 and Test Cycle 2 as well as demonstrations on Asset Management, Stockroom Replenishment, and the entire Payroll Cycle and Suspense Processing function. Staff finalized deployment and training plans to support Operational Testing 1 and 2. Planned actions for the first quarter of 2004 include commencing Operational Test Phase 1 and going live at four test sites and other unique focus sites. Further, VA plans to complete CoreFLS User Acceptance Testing and implementation of cyber security plans that are currently being prepared.

Erroneous Payments – In an effort to enhance internal controls in the area of erroneous payments, VA met with OMB to review a statistical method for estimating erroneous payments in the insurance and C&P programs. We are developing measures to identify overpayments and determine the nature and causes of such overpayments. VA has identified programs for review under the Improper Payments Information Act of 2002 (P.L. 107-300) and plans to award a contract in 2004 to estimate improper payments. Initial data were entered into OMB's Financial Information Performance and Measurement Tracking Systems in May 2003. VA management plans to use this information to develop and implement controls to prevent further occurrences. Also, VA is collaborating with other government agencies such as the Bureau of Prisons and Social Security Administration to identify and recover payments from beneficiaries who are ineligible for benefits. These activities are further described in the following information, which was formerly presented in a form, Exhibit 57, in compliance with P.L. 107-300.

I. Commitment by Agency Head to President's and Congress' Initiative to Reduce Erroneous Payments

The Department of Veterans Affairs is committed to reducing erroneous payments and has designated the Assistant Secretary for Management as the VA official responsible for establishing policies and procedures to assess agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate.

II. Description of Risk Analysis performed in compliance with Improper Payments Information Act of 2002

VA will perform a Risk Analysis of programs in FY 2004 to include the following:

- General Operating Expense Salaries
- VHA Salaries
- VHA Research
- VHA Employee and Beneficiary Travel
- VHA Fee
- VHA Grants
- VHA Property, Plant, and Equipment
- VHA Pharmacy (drugs/medicine)
- VHA Prosthetics

- VHA Communications and Utilities
- VBA Compensation
- VBA Dependency and Indemnity Compensation
- VBA Pension
- VBA Vocational Rehabilitation and Employment
- VBA Education
- VBA Insurance
- VBA Housing
- NCA Burial Services

III. List Programs found to be at Risk of Significant Erroneous Payments (including those programs listed in the former Section 57 of A-11)

Once the Risk Analysis of programs is completed, VA will be able to identify those programs found to be at Risk of Significant Erroneous Payments, in addition to the Compensation, Dependency and Indemnity Compensation, Pension, and Insurance programs listed in the former Section 57 of A-11.

IV. Program-by-program description of programs previously required to submit Exhibit 57s.

A. Program Description

Disability Compensation is provided to veterans for disabilities incurred or aggravated while on active duty. The amount of compensation is based on the degree of disability. Several ancillary benefits are also available to certain severely disabled veterans.

Dependency and Indemnity Compensation (DIC) is provided for surviving spouses, dependent children, and dependent parents of veterans who died of service-connected causes or while on active duty on or after January 1, 1957. Prior to that date, death compensation was the benefit payable to survivors.

Nonservice-Connected Disability Pension is provided for veterans with nonservice-connected disabilities who served in time of war. The veterans must be permanently and totally disabled or must have attained the age of 65 and must meet specific income limitations.

Death Pension is provided for surviving spouses and children of wartime veterans who died of nonservice-connected causes, subject to specific income limitations.

Insurance program provides veterans and servicemembers life insurance benefits that are not available from the commercial insurance industry because of lost or impaired insurability resulting from military service. Insurance coverage is available at competitive premium rates and with policy features comparable to those offered by commercial companies. A competitive, secure rate of return is ensured on investments held on behalf of the insured.

B. Error Table

Program: **Compensation**	**2002**		**2003**		**2004 Target**	**2005 Target**	**2006 Target**
	Dollars	Rate	Dollars	Rate	Dollars/Rate	Dollars/Rate	Dollars/Rate
Total Payments	22,402,321	100%	24,709,991	100%	TBD	TBD	TBD
Underpayments					TBD	TBD	TBD
Overpayments	119,340	0.53%	129,063	0.52%	TBD	TBD	TBD
Total Erroneous Payments	**119,340**	**0.53%**	**129,063**	**0.52%**	**TBD**	**TBD**	**TBD**

Program: **Pension**	**2002**		**2003**		**2004 Target**	**2005 Target**	**2006 Target**
	Dollars	Rate	Dollars	Rate	Dollars/Rate	Dollars/Rate	Dollars/Rate
Total Payments	3,164,030	100%	3,221,396	100%	TBD	TBD	TBD
Underpayments					TBD	TBD	TBD
Overpayments	231,660	7.32%	250,535	7.78%	TBD	TBD	TBD
Total Erroneous Payments	**231,660**	**7.32%**	**250,535**	**7.78%**	**TBD**	**TBD**	**TBD**

Program: **Insurance**	**2002**		**2003**		**2004 Target**	**2005 Target**	**2006 Target**
	Dollars	Rate	Dollars	Rate	Dollars/Rate	Dollars/Rate	Dollars/Rate
Total Payments	1,708,000	100%	1,676,000	100%	TBD	TBD	TBD
Underpayments					TBD	TBD	TBD
Overpayments	284	0.02%	261	0.02%	TBD	TBD	TBD
Total Erroneous Payments	**284**	**0.02%**	**261**	**0.02%**	**TBD**	**TBD**	**TBD**

C. Discussion of Causes of Erroneous Payments and Status of Efforts to Reduce

Compensation & Pension

Compensation and Pension Service defines erroneous payments as payments made to ineligible beneficiaries or payments that were made for an incorrect amount. Erroneous payments may be caused by procedural or administrative errors made during the claims process or fraud on the part of employees, beneficiaries, or claimants. Overpayments are typically created by actions to reduce compensation or pension benefits resulting from a change in status while underpayments reveal that VBA did not properly issue the correct payment to the beneficiaries.

For 2004 through 2006, VBA will determine incorrect payments based on its national Systematic Technical Accuracy Review (STAR) results. The STAR process involves a comprehensive technical accuracy review of a statistically valid random sample of completed cases. The annual STAR sample includes approximately 16,000 currently processed cases including a mix of compensation and pension claims. The STAR process was modified to require reviewers to calculate the amount of over- or underpayment involved for any errors identified under the following categories: Improper Grant/Denial; Improper Percentage Evaluation Assigned; Improper Effective Dates Affecting Payment; and Improper Payment Rates. The results of this review sample will be extrapolated to the universe of completed claims to calculate estimated annual over- and underpayments. Separate annual amounts will be calculated for the compensation program and pension program. VBA briefed OMB on this plan, which met with their approval.

Reviews under this plan are now being conducted. Initial reviews confirmed the validity of this approach, but sufficient data have not yet been captured to provide statistically valid results. A statistically valid sample result will be included in the next annual report (consistent with the requirements of the Improper Payments Information Act of 2002).

Insurance

VA does not believe there are design issues within the Insurance Program that contribute significantly to improper payments. There are effective safeguards already installed which are designed to prevent fraud wherever possible and to make it easier to discover fraud if it has occurred.

The majority of VA's improper payments are usually the result of human error, which is directly related to the speed of service provided as well as the large volume of transactions processed. Of the total transactions processed, the number of improper payments is relatively insignificant, constituting less than 1 percent of all transactions processed. This low figure is primarily due to the reviews conducted by the Insurance Service Internal Control Staff.

V. Discussion of Application of Recovery Auditing

Compensation & Pension

Our methodology for determining overpayments and underpayments also assesses the causes of the erroneous payments. This information is captured as part of our ongoing reviews and will be fully discussed in the next annual report.

Although we currently do not have initiatives specific to underpayments, we are cognizant of the need to improve our accuracy in the areas of pension adjustments, particularly erroneous payments. For this reason, since November 2001, we have consolidated the processing of pension maintenance workload to improve the quality of the pension processing and to focus training in this area. We believe that an improved quality of pension processing and focused training reduces erroneous payments. In December 2002, we began the annual review of a statistically valid sample of 1,200 cases from the three pension maintenance centers.

With more completed statistically valid data over the next year, we will better assess our ongoing audits and how they contribute to reducing overpayments and underpayments. At this time, we will continue with the following list of audits and investigations until the annual report where we will tie these audits to our statistically valid results.

Unmatched records – with Social Security Administration – C&P Service analyzes an extract of hits from data runs to obtain the Unverified Social Security Numbers Listing.

Death Match Project – The OIG death match project is conducted to identify individuals who may be defrauding VA by receiving VA benefits intended for beneficiaries who have passed away. This project will be updated on an annual basis with new information. The death match project continues to be a priority project of the OIG.

Fugitive Felon Program – Public Law 107-103 was enacted on December 27, 2001. The law prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans benefits. In addition, the law requires the Secretary to furnish to law enforcement personnel, upon request, the most current address of a veteran who is determined to be a fugitive felon. A memorandum of understanding was signed with U.S. Marshals Service in April 2002, and an agreement with the State of California was signed in July 2002, to electronically match their fugitive felon warrant files with VA databases. Agreements with additional states will be negotiated over the next 2 years. The OIG is responsible for the front end of the fugitive felon program. At any given time more than 100,000 individuals are on a fugitive felon list maintained by the federal government and/or state and local law enforcement agencies.

Payments to Incarcerated Veterans – In February 1999, the OIG published a report titled *Evaluation of Benefit Payments to Incarcerated Veterans* (Report No. 9R3-B01-031). The review found that VBA officials did not implement a systematic approach to identify incarcerated veterans and adjust their benefits as required by Public Law 96-385. An agreement was reached with the Social Security Administration (SSA) that allowed VA to use the State Verification and Exchange System to identify claimants incarcerated in state and local facilities. We are now processing both Bureau of Prisons Match and SSA Prison Match cases on a monthly basis.

Benefit Overpayments Due to Unreported Beneficiary Income – The OIG's November 2000 report, *Audit of VBA's Income Verification Match Results* (Report No. 99-00054-1), found that opportunities exist for VBA to significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered; better ensure program integrity and identification of program fraud; and improve delivery of services to beneficiaries. The audit found that VA's beneficiary income verification process with the Internal Revenue Service (IRS) resulted in a large number of unresolved cases. VBA has implemented seven of eight recommendations from this report. However, the recommendation to complete necessary data validation of beneficiary identifier information contained in C&P master records to reduce the number of unmatched records with the SSA remains unimplemented. This was a repeat recommendation from a 1990 OIG report.

The Income Verification Match (IVM) processing has been centralized at the three Pension Maintenance Centers this year. The IVM match involves obtaining two files–one from SSA and one from the IRS. The SSA file contains earned income information. The IRS file contains unearned income information. Typically both files are run against VA records at the same time to produce IVM Match output.

Disability Compensation Benefits for Active Military Reservists – In May 1997, the OIG conducted a review to determine whether VBA procedures ensure that disability compensation benefits paid to active military reservists are offset from training and drill pay as required by law. The OIG report titled *Review of VBA's Procedures to Prevent Dual Compensation* (Report No. 7R1-B01-089) reported that VBA had not offset VA disability compensation to 90 percent of the sampled active military reservists receiving military reserve pay. Dual payments occurred because procedures established between VA and DoD were not effective or were not fully implemented. VA and DoD have worked to correct procedures and processes to insure dual compensation benefits are properly offset.

Insurance

Established in 1992, the Internal Control Staff (ICS) monitors, reviews and approves all manual insurance disbursements and certain other controlled transactions. It is the duty of these reviewers to verify the correctness and propriety of all critical insurance actions. This staff is the primary control point for all processes involving clerical disbursement actions and ensures the propriety of system-generated disbursements. The ICS exists to augment VA's traditional management controls (e.g., internal system edits, supervision, performance reviews and quality control reviews).

In addition to the above, the ICS conducts a variety of post-audit reviews using, among other tools, matching reports to help prevent and detect fraud, waste, and abuse. Moreover, the ICS reviews the work of its own staff. Through these reviews, the staff supervisors ensure that work is being done in date order, that it is being reviewed properly, and that no fraud has been committed.

The ICS identified best practices by consulting with the OIG, who provided a variety of computer matching programs to assist in identifying patterns that may indicate abuse. Internal Control managers also attend classes in statistical sampling and in the prevention and detection of fraud, waste and abuse, and attended formal training in management and accountability. They have shared their expertise with other elements of VBA and individuals from the OIG have referred to their operation as a "best practice."

VI. Discussion of Purchase and Travel Card Usage

VA's Financial Quality Assurance Service conducts financial management reviews of VHA and VBA field facilities. Purchase and travel card programs are reviewed to determine if existing internal controls provide adequate safeguards and management oversight. Travel and purchase card transactions are sampled to determine compliance with applicable federal and VA regulations. Findings and recommendations are reported to facility directors, Administration CFOs, and the VA CFO.

Electronic Government

Progress Achieved in 2003

VA developed a framework that supports high-level strategies to improve electronic delivery of services to veterans, beneficiaries, and other major VA stakeholders. The framework provides a uniform approach for

electronic forms management, Web-based applications, identification and authentication options, authorization and access control, electronic signature, security, and data interchange that supports the Department's internal business processes and systems. In 2003, VA built a superset data dictionary from information collected from veterans. We intend to use the information to provide veterans with pre-populated forms when they apply for and use VA services, in either electronic or paper-based form. VA changed its form review process to take advantage of opportunities where forms can be consolidated or discontinued. A *One VA* forms Web site was launched, which consolidated five existing Web sites. This *One VA* Web site provides the means for all VA transactions to be available online in fillable formats, and provides a single entry point and source to access all VA forms.

To move VA to the President's vision of electronic government, VA signed official agreements with partner agencies and provided funds to support GovBenefits, e-Loans, e-Authentication, and Integrated Acquisition Environment; signed a working agreement with the General Services Administration for USA Services; provided DoD's Defense Finance and Accounting Service with high-level requirements for payroll systems and services (e-Payroll); and is an active participant in the federal e-Travel System managed by GSA. VA's participation in federal e-Gov initiatives has increased from 11 to 16 of the initial 24 initiatives. To improve its internal operations, VA developed plans to accomplish a strong authentication system that uses digital certificates allowing VA users to authenticate their identity to VA systems and applications; the Department also took steps to expand the use of public key infrastructure (PKI). In parallel to working on the federal e-Travel initiative, VA recognized the need to improve its travel management operations. VA developed and began implementing a streamlined and centralized travel system, eliminating the three separate systems formerly used.

e-Payroll Initiative

During 2003, as part of the e-Payroll initiative, OPM aligned VA with DoD's Defense Finance and Accounting Service (DFAS) system. VA has begun to explore with DFAS various conversion and configuration options under the e-Payroll initiative. VA provided DFAS with a proposed Interagency Agreement, which is pending DFAS signature to begin the work necessary for consolidation, i.e., fit-gap analysis, full requirements analysis, detailed system change requirements and estimated conversion and operations costs for both VA and DFAS. VA is continuing to support DFAS in analyzing the Department of Health and Human Services' title 38 requirements. VA will continue to work with DFAS and OMB/OPM in 2004 on e-Payroll requirements and documentation.

e-Travel

During 2003, VA began implementing a new electronic travel system that will allow travelers or travel arrangers to electronically prepare and submit travel information using a Web-based capability. E-travel will provide a Departmentwide system that will reduce cycle time for the travel management process, centralize travel and budget information online, reduce delinquency rates, increase dollar savings from prompt payment of travel card bills, and reduce paperwork as a result of the system's end-to-end capabilities. A contract was awarded for VA's e-Travel solution and full implementation is slated for completion by the end of the first quarter of 2004.

Plans and Major Actions to be Addressed in 2004

VA plans to continue to provide support and funding for the federal e-Gov initiatives already underway, and is committed to participating in the remaining initiatives as they evolve, including the federal crosscutting initiative, e-Authentication. VA began efforts to incorporate forms management and e-Gov strategies into the Department's Enterprise Architecture version 3.0.

VA plans to develop a host of enterprise-wide software solutions and corporate-wide licensing strategies; continue to test electronic and information technology products for accessibility by individuals with disabilities as required by section 508 of the Rehabilitation Act; monitor the quality of information published on VA's Web site as required by section 515 of the Data Quality Act; continue work in creating an integrated contact management capability; and complete a centralized database of veteran medical records.

Budget and Performance Integration

VA has made a number of advancements toward integrating budget and performance: Ongoing monthly performance review meetings involving VA senior leadership have provided a continuous review of program performance in the areas of financial management, performance measurement, workload and major construction, and information technology projects. The purpose of these meet-

ings, chaired by the Deputy Secretary, is to inform while identifying issues through a detailed review of Department resources. Because all VA programs are represented at this meeting, the resulting management decisions are immediately communicated and incorporated to maximize resource utilization and to help ensure achievement of annual performance goals.

VA used OMB's Program Assessment Rating Tool (PART) to review five of the Department's nine programs. The medical care, burial, and compensation programs, which were reviewed in 2002, were included in the President's 2004 budget. VA reviewed the programs on education and research and development during 2003, along with an update on the medical care program. The results will be incorporated in the President's 2005 budget.

Two VA programs are participating in Common Measures exercises: medical care and vocational rehabilitation and employment (VR&E). VHA has been working with DoD, the Indian Health Service, and the Community Health Centers programs in HHS to develop and implement meaningful performance measures of health care programs. VR&E is developing measures with the Departments of Labor, Housing and Urban Development, Education, and Interior to evaluate the effectiveness of federal employment programs.

With the 2005 budget, VA is providing a more complete picture of our resource needs by better integrating legislative proposals with the budget request. VA is submitting its 2005 budget using the same account structure first proposed in the 2004 budget. The structure focuses on nine major programs – medical care, research, compensation, pension, education, housing, vocational rehabilitation and employment, insurance, and burial. The 2004 budget is pending congressional action. The Administration is negotiating with Congress over which features of the proposed account structure will be implemented.

Improved Coordination of VA and DoD Programs and Systems

VA and DoD established the Joint Executive Council (JEC) to enhance collaboration. The JEC is co-chaired by VA's Deputy Secretary and the Under Secretary of Defense for Personnel and Readiness. The JEC reached agreement on the Federal Health Information Exchange, including a joint strategy for interoperable electronic records (HealthePeople); a standardized reimbursement rate structure for VA/DoD medical sharing agreements; implementation of a Consolidated Mail Outpatient Pharmacy (CMOP) pilot; establishment of a joint physical examination pilot; increased cooperation in capital asset planning; and a joint strategic planning initiative.

VA and DoD also established a Benefits Executive Council (BEC), chaired by the VA Under Secretary for Benefits and the Assistant Secretary of Defense for Force Management. The BEC will help facilitate the transition of separating servicemembers through initiatives aimed at improving medical examination and establishment of eligibility processes, facilitating enrollment in the VA health care system, and expediting disability compensation claims.

The VA/DoD Health Executive Council, co-chaired by VA's Under Secretary for Health and the Assistant Secretary of Defense for Health Affairs, meets bi-monthly and has work groups for Information Management; Clinical Practice Guidelines; Patient Safety; Pharmacy; Medical/Surgical Supplies; Benefits Coordination; Financial Management; Geriatric Care; Joint Facility Utilization/Resource Sharing; Education; and Deployment Health.

VA and DoD have substantially increased joint procurement activities. As of July 2003, there were 84 joint VA/DoD contracts, 12 blanket purchase agreements, and 2 temporary price reductions in place for pharmaceuticals. The 2003 cost avoidance is estimated at $376 million for VA and $104 million for DoD. Ten high-volume prescription drugs have been identified for joint contracting possibilities in 2004.

VA and DoD staff meet regularly to execute joint procurements for medical/surgical supplies. The first joint contract for vital sign monitors is close to award. Requirements are being developed for standardization of surgical instruments. Other areas of interest include patient controlled analgesia pumps, steri-strips/surgical tape, and skin staplers. A memorandum of agreement for high-tech medical equipment was signed in August 2003.

The CMOP pilot with three DoD facilities is growing. Total prescription fills through June 2003 were 333,603; monthly fills have increased to 50,000. Customer service satisfaction surveys are consistently above 90 percent. CMOP electronic interfaces are completed and compliant with the Health Information Portability and Accountability Act and cyber security requirements.

Faith-based Initiatives

During 2003, VA implemented a number of faith-based and community initiatives. Notices of Funding Availability published this year clearly identified faith-based organizations as being eligible entities to apply for funding under the VA homeless service providers grant and per diem program. New VA regulations are pending publication in the Federal Register. The new regulations, which will be out for public comment, are designed to reduce barriers identified by faith-based representatives as potential impediments to providing services under VA's only grant program to non-profit organizations.

In 2003, VA established a technical assistance provider to assist faith-based organizations in applying for funding to aid homeless veterans under a variety of federal programs.

VA's Office of Intergovernmental Affairs, along with representatives from VHA and VBA, participated in each of the White House Faith-Based and Community Initiatives Regional Conferences during 2003, distributing fact sheets and benefit information and responding to hundreds of requests for assistance. VA is preparing to attend conferences scheduled for 2004.

While there are no requirements or set-asides for faith-based organizations, we continue to monitor the number and percentage of faith-based organizations that provide direct services to homeless veterans. The percentage of organizations funded and transitional beds supported by VA exceeds 30 percent. Those percentages may increase with enhanced outreach and technical assistance.

VA conducted a review of the final report presented by BETAH Associates, a consulting group, and the National Center for Neighborhood Enterprise, Inc. Discussions with faith-based organizations that provide direct services lead us to believe our relationships are strong and extensive. A variety of efforts to enhance those historical connections are ongoing.

What We Accomplished

This section of the report presents detailed information on the Department's program performance during 2003. The discussion is structured around our strategic goals and objectives, as revised and approved by the Secretary and published in VA's strategic plan in July 2003. The Department has adopted these goals and objectives for strategic planning, performance planning, and performance reporting purposes. The set of key performance measures presented in this report are re-evaluated annually and modified to ensure they continue to fully address our objectives. A few objectives have no key performance measures at this time but they are under development.

Charts for those key performance measures that have data also include the goals for 2004 and strategic targets. The performance goals for 2004 might change depending on Congress' decisions regarding VA's appropriation for the year. Strategic targets are those long-term goals that, when achieved for a number of years, will indicate that VA has reached the optimal functioning in the area being measured. Preliminary data are identified in the charts and a notation indicates when the data will be available. We will publish final data in the 2005 Congressional budget and/or the FY 2004 Performance and Accountability Report.

The strategic goals reflect the combined efforts of all VA elements to deliver benefits and services to disabled veterans, veterans in transition from the military, the overall veteran population and their families, and the Nation at large. In addition to our strategic goals, we have an enabling goal that focuses on cross-cutting management issues and fosters a climate of world-class service and benefits delivery. The following table identifies estimates of the total resources the Department devoted by program to the achievement of these goals. The resources spent to achieve each goal below are approximated because we do not yet have the sophisticated financial tools necessary to precisely report the cost of each goal. Note that numbers might not add due to rounding in this and subsequent charts.

Strategic Goal Resources by Responsible Program

Responsible Program and Goal	Total Obligations ($ in millions)	Restore Disabled Veterans	Ensure a Smooth Transition	Honor and Serve Veterans	Support National Goals	Enabling Goal
Medical Care	$27,670	$14,303	$83	$12,648	$454	$177
Medical Research	$1,005	$543			$463	
Compensation	$25,466	$25,466				
Pension	$3,367			$3,367		
Education	$2,184	$218	$1,966			
Vocational Rehabilitation	$665	$665				
Housing	$996		$996			
Insurance	$2,703	$100	$659	$1,945		
Burial	$336			$256	$80	
Departmental Management	$721	$42		$5	<$1M	$673
Total ($ in millions)	$65,115	$41,341	$3,704	$18,221	$997	$850

VA's Key Performance Goals and Measures

For 2003, VA's senior leadership identified 27 key performance goals as critical to the success of the Department. Some of these deal with program outcomes; others pertain to the manner in which we administer our programs.

The Department is committed to continuously improving the delivery of benefits and services to veterans and their families. Whether the focus is on enhancing the quality of health care, expanding access to care, reducing the time it takes to complete claims for benefits, improving the accuracy of claims processing, or providing more veterans with a burial option, our aim is to improve our performance each year.

At the end of each fiscal year, we evaluate performance for the previous year and set new performance targets that demonstrate our commitment to continuous improvement. The majority of our performance measures remain the same from year to year, but we will modify our list in response to changing circumstances. If our actual performance has met or exceeded our original goals and further performance improvements are unlikely or unreasonable, we will either drop the performance measure or replace it.

Some of VA's key performance measures support achievement of more than one strategic goal; however, we have aligned them with the strategic goal and objective that they most closely support. For each of the objectives, we present:

- the performance measure or measures used to assess progress toward achieving the goal;
- historical data;
- the means and strategies used to achieve the actual level of performance;
- crosscutting activities with other federal and private organizations;
- descriptions of any relevant management challenges affecting goal achievement.

The source of the performance information for key measures and how it was validated is presented in the Data Appendix in part IV on page 180. Other goals and measures deemed important by the program offices continue to be monitored and are presented in the data tables beginning on page 86.

Note that in this report, years are fiscal years unless stated otherwise.

Strategic Goal 1

VA will restore the capability of veterans with disabilities by maximizing the ability of these veterans, including special veteran populations, and their dependents and survivors to become, to the degree possible, full and productive members of society through a system of health care, compensation, vocational rehabilitation, life insurance, dependency and indemnity compensation, and dependent's and survivor's education. This system of benefits and services is aimed toward the broad outcome of restoring the individual capabilities of our Nation's veterans with disabilities.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives.

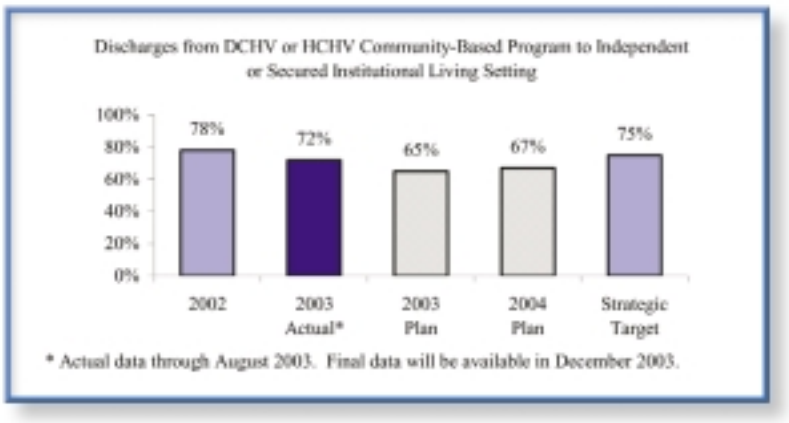
		FY 2003 Obligations ($ in Millions)	% of Total VA Resources
Strategic Goal 1 **Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.**		**$41,341**	**63.5%**
Objectives	**Performance Measures**		
1.1 Maximize the physical, mental, and social functioning of veterans with disabilities and be recognized as a leader in the provision of specialized health care services.	• Percent of veterans who were discharged from a DCHV Program, or HCHV Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement.	$14,850	22.8%
1.2 Provide timely and accurate decisions on disability compensation claims to improve the economic status and quality of life of service-connected veterans.	• Average days to process C&P rating-related actions. • Average days pending for C&P rating-related actions. • Average number of days to obtain service medical records. • National accuracy rate for core rating work.	$25,508	39.1%
1.3 Provide all service-disabled veterans with the opportunity to become employable and obtain and maintain suitable employment, while providing special support to veterans with serious employment handicaps.	• Vocational rehabilitation and employment rehabilitation rate.	$665	1.0%
1.4 Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits.	No Key Measure	$318	0.8%

Objective 1.1

Maximize the physical, mental, and social functioning of veterans with disabilities and be recognized as a leader in the provision of specialized health care services.

Performance Goal

Maintain at 65 percent the veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) Program or Health Care for Homeless Veterans (HCHV) Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement.



The programs outlined above successfully met our goal of placing 65 percent of homeless veterans into independent or secured living arrangements upon discharge by achieving 72 percent. VA is focused on promoting the health, independence, quality of life, and productivity of all special population veterans including homeless veterans. Discharge to non-institutional community living or a secured institutional living arrangement is a positive health outcome.

VA is continuing to support an increase in the number of residential beds in the community, funded under VA's Homeless Providers Grant and Per Diem Program that offers continued supervised housing with support services for homeless veterans in structured, supervised residential programs designed to reduce the risk of homelessness. VA will provide a continuum of specialized care for homeless veterans that includes: 1) VA outreach and case management services; 2) residential treatment in VA's DCHV; 3) transitional supported housing and supportive service centers provided by faith-based and community-based organizations through VA's Homeless Providers Grant and Per Diem Program; 4) assistance with employment through VA's Compensated Work Therapy (CWT) Program coupled with VA community-based supported housing in CWT/Transitional Residential (CWT/TR) Programs; and 5) assistance with permanent housing through a joint program with the Department of Housing and Urban Development (HUD) in which HUD provides dedicated Section 8 vouchers for homeless veterans and VA provides ongoing case management services. VA works with a number of government agencies as well as private sector groups to provide services to homeless veterans. Improvements in the overall health of special populations will be affected, in part, by constituencies who influence these programs as well as by other government agencies and private interest groups.

Some of our crosscutting activities include:

- VA's Homeless Providers Grant and Per Diem Program provides grants to community-based organizations, state or local governments, or Native American tribes to assist with the construction or renovation of new transitional beds and other supportive services programs.
- Under VA's Community Homelessness Assessment, Local Education and Networking Groups for Homeless Veterans program, VA medical centers work with representatives from other federal agencies, state and local governments, and community-based service providers to identify the unmet needs of homeless veterans and develop action plans to meet these needs.
- In conjunction with DoD and GSA, VA distributes excess property (e.g., sleeping bags, blankets, and clothing) for homeless veterans through the Compensated Work Therapy Program, which employs formerly

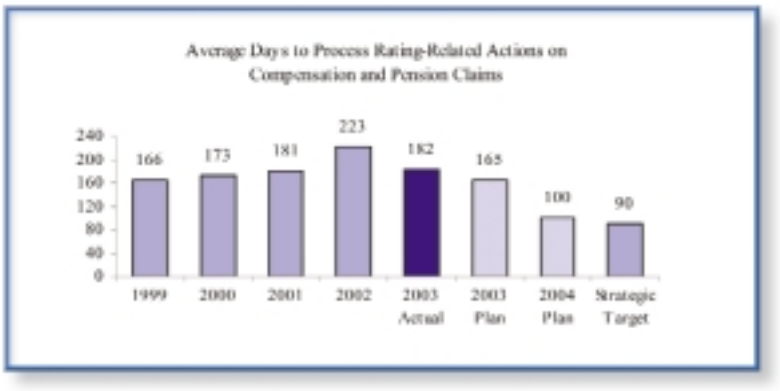
homeless veterans in various tasks.
- VA and HUD jointly sponsor the HUD-VA Supported Housing (HUD-VASH) Program for homeless veterans in 35 locations across the country. VA clinicians provide ongoing case management for homeless veterans who have received dedicated Section 8 housing vouchers from HUD.
- VA serves on the Interagency Council on the Homeless, which serves as a forum for the exchange of information to ensure coordination of federal efforts to assist the Nation's homeless population. The VA Secretary is a Co-Vice Chair.
- The Department of Labor's Homeless Veterans Reintegration Project's grant recipients coordinate their efforts to assist homeless veterans with employment and vocational training with VA's HCHV and DCHV programs.
- HCHV and DCHV staffs coordinate outreach and benefits certification at three sites to increase the number of eligible homeless veterans who receive Supplemental Security Income or Social Security Disability Income benefits and to otherwise assist in their rehabilitation.
- VA collaborates with U.S. Vets, Inc. and the Corporation for National Service to expand AmeriCorps member services to homeless veterans.

Objective 1.2

Provide timely and accurate decisions on disability compensation claims to improve the economic status and quality of life of service-connected veterans.

Performance Goal

Complete rating-related actions on compensation and pension (C&P) claims in an average of 165 days.



Although VA made positive improvement in the average days to process a rating claim compared to 2002 performance, reducing the cumulative average by 41 days, we did not meet the Secretary's priority of 165 days, achieving an average of 182 days in 2003. However, the average processing time for veterans who received a decision during the last 3 months of the fiscal year was below our monthly 2003 plan. We continued to prioritize the oldest claims in our inventory as well as claims from our older veteran population. VBA restructured the Veterans Service Centers at all regional offices as well as the Pension Maintenance Centers, and redesigned the work flow to reflect the steps in the claims process, allowing increased efficiencies and reduced cycle times. As we continue to analyze and make improvements in our processing cycles and work to further reduce our pending inventory, the length of time required to process claims will continue to decline. We anticipate the 2004 goal will be met.

Our partnership with the Department of Defense (DoD) and our liaison work with the Center for Unit Records Research will be major factors in decreasing the average number of days to process a disability compensation claim. VBA and VHA are developing a joint examination protocol with DoD for servicemem-

bers leaving active military service. There are currently 30 DoD sites using the "One Exam" protocol, which meets DoD's discharge requirements as well as VA's compensation requirements. We are currently working with the DiLorenzo TRICARE Health Clinic at the Pentagon to develop a separation examination protocol that would be universally accepted by all service departments.

Access to DoD databases providing information on servicemembers such as combat history, service dates, reserve status/drill dates, dependency information, and history of exposure to radiation and other toxins will assist in achieving our goals.

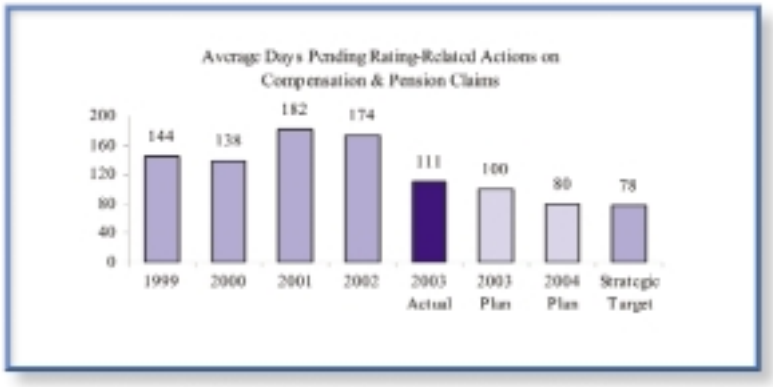
We will continue the use of technological enhancements to applications such as RBA2000 (Rating Board Automation 2000), CAPRI (Compensation and Pension Record Interchange), and MAP-D (Modern Award Processing – Development). This will speed the processing of claims and assist in ensuring quality improvements.

As a part of the Casualty Assistance program, all in-service death claims are now processed in our Philadelphia Regional Office. In July 2003, a Web-based application was installed to automate and expedite the return of service medical records for servicemembers recalled to active or reserve duty.

In 2004, as we progress in our budget account restructuring efforts and align with our revised strategic plan, we will begin reporting this data for each program – Compensation and Pension – separately as key performance measures. We will continue to follow this joint measure as a supporting measure.

Performance Goal

Decrease to 100 the average days pending for Compensation and Pension rating-related actions.



Although we did not meet our goal of 100 days for pending C&P rating-related actions, we have demonstrated significant improvement in this category. Many of the factors influencing our performance of 111 days in 2003, and which will enable us to continue to improve, are discussed in the previous narrative.

In addition to prior steps discussed, we believe our Training Responsibility Involvement Preparation program will assist in meeting this goal for 2004. This program for veteran service officers provides training and certification of skills in the proper procedures of developing a claim. The mastery of these skills will enable faster processing.

In 2004, as we progress in our budget account restructuring efforts and align with our revised strategic plan, we will begin reporting this data for each program – Compensation and Pension – separately as key performance measures. We will continue to follow this joint measure as a supporting measure.

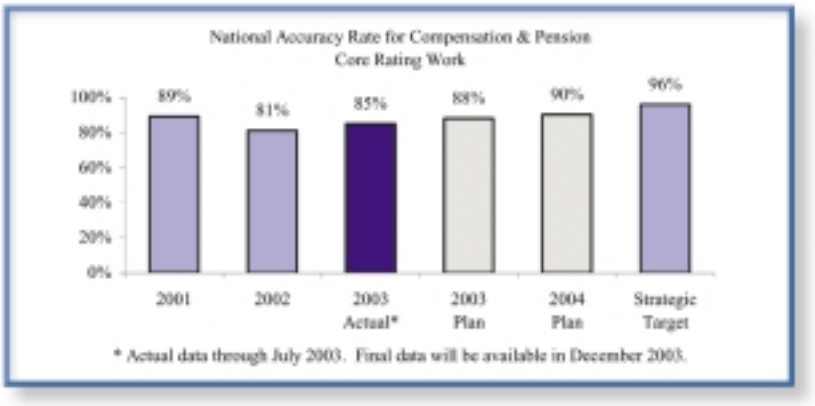
Performance Goal

Reduce the average number of days to obtain service medical records.

This new measure is still under development. An extensive review was conducted in 2003 concerning the processing of service medical record requests. One finding from the study was that the current automated request system, the Personnel Interface Exchange System, does not capture the data needed to accurately track and record this measure. Consequently, the measure is "to be determined" while alternative solutions are explored. In the future, this will not be reported as a key measure.

Performance Goal

Increase to 88 percent the national accuracy rate for Compensation and Pension core rating work.



The accuracy rate continued to improve achieving 85 percent as of July 2003, within 3 percentage points of our plan. Final data will be available in December 2003. With increased sample reviews and ongoing training, we anticipate future accuracy goals will be met.

In order to ensure that quality is a top priority, VBA is requiring feedback and accountability for corrective actions by the regional offices. Certification of the corrective action is required for every error documented on national accuracy reviews. VBA headquarters reviews the corrective action reports to determine adequacy of the corrective actions. In addition, reliability of the reports will be monitored during periodic site visits. Beginning in 2004, formal quality improvement plans will be required of all regional offices with an accuracy rate below 80 percent.

Training remains a VBA priority. Various mediums are used for centralized training including satellite broadcasts, training letters, and computer-assisted training. Local training is based on needs identified through ongoing individual performance reviews.

VBA has implemented a national individual performance review plan with standardized review categories, sample size, and performance standards. In addition, VBA developed a supplemental review to monitor the quality of written communication for clarity and conciseness (as opposed to technical accuracy measured as part of the standard Statistical Technical Accuracy Reviews). Reviews will be initiated in the beginning of 2004.

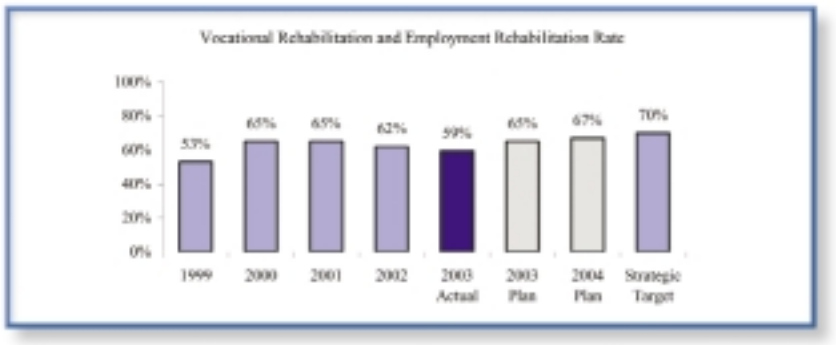
In 2004, as we progress in our budget account restructuring efforts and align with our revised strategic plan, we will begin reporting this data for each program – Compensation and Pension – separately.

Objective 1.3

Provide all service-disabled veterans with the opportunity to become employable and obtain and maintain suitable employment, while providing special support to veterans with serious employment handicaps.

Performance Goal

At least 65 percent of all veteran participants who exit the vocational rehabilitation program will be rehabilitated.



Vocational Rehabilitation and Employment (VR&E) did not meet its goal of a 65 percent rehabilitation rate for service-disabled veterans who exited a vocational rehabilitation program and acquired and maintained suitable employment but achieved 59 percent. Fewer employment opportunities coupled with a greater number of veterans who chose to leave the program before completion had a negative effect on achieving our targeted rehabilitation rate.

VR&E will continue to focus on training with an emphasis on the Employment Specialist position as a means of improving the rehabilitation rate. This emphasis will build on the initiatives of 2003. For example, several Employment Specialists completed an accredited program through the George Washington University. In addition, VR&E conducted a national training conference for all Employment Specialists, focusing on how they can network with the local business community to help veterans secure suitable employment.

VR&E will analyze the reasons veterans drop out of training programs before they are rehabilitated. The goal is to identify preventative actions that could be taken to avoid attrition.

VR&E is in the final year of our access initiative. Through this initiative, VR&E increased the number of staff members located outside of the regional office so that service is more accessible to veterans across the country. VR&E also initiated a longitudinal study to examine the Chapter 31 program for veterans with service-connected disabilities. This study will look at the characteristics of the individual, the region of the country in which the veteran resides, and the strength of the economy at the time of service.

VA has partnered with the Department of Labor to provide information on training via the DOL Career One-Stop Training and Education Center. This resource helps VR&E staff to locate information on available training and ways to fund training.

VA and DoD have collaborated on an online, Internet application that helps identify the skills, duties, job description, physical requirements, and training requirements of military occupational specialties and their related civilian occupations. This application was developed especially for Chapter 31 Vocational Rehabilitation evaluations.

Objective 1.4

Improve the standard of living and income status of eligible survivors of service-disabled veterans through compensation, education, and insurance benefits.

VA's compensation program provides monthly payments to the surviving spouses, dependent children, and dependent parents in recognition of the economic loss caused by a veteran's death during military service or, subsequent to discharge from military service, as a result of a service-connected disability. These payments assisted in improving the economic status of more than 300,000 surviving spouses and family members during 2003. The average annual benefit payment was about $12,500.

The Department also provides education benefits to children and spouses of veterans who died of a service-connected disability or whose service-connected disability is rated permanent and total. These education benefits place the family members in a better position to find suitable employment and ultimately improve their economic standing.

VA furnished education and training benefits to over 54,350 dependents for the 9 month period ending June 30, 2003, with an average annual benefit of over $4,100.

VA's insurance program offers life insurance benefits to veterans and servicemembers who may not be able to obtain commercial insurance due to lost or impaired insurability resulting from military service. The Department paid approximately $1.7 billion in death claims during 2003, thus easing the economic impact on survivors of servicemembers and veterans.

There are currently no key performance measures associated with this objective.

Strategic Goal 2

Veterans will be fully reintegrated into their communities with minimum disruption to their lives through health care, readjustment counseling, employment services, vocational rehabilitation, education assistance, and home loan guarantees.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives.

		FY 2003 Obligations ($ in Millions)	% of Total VA Resources
Strategic Goal 2 **Ensure a smooth transition for veterans from active military service to civilian life.**		**$3,704**	**5.7%**
Objectives	**Performance Measures**		
2.1 Ease the reentry of new veterans into civilian life by increasing awareness of, access to, and use of VA health care, benefits, and services.	• Percent of claimants who are Benefits Delivery at Discharge participants. • Percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons.	$742	1.1%
2.2 Provide timely and accurate decisions on education claims and continue payments at appropriate levels to enhance veterans' and servicemembers' ability to achieve educational and career goals.	• Average days to complete original education claims. • Average days to complete supplemental education claims.	$1,966	3.0%
2.3 Improve the ability of veterans to purchase and retain a home by meeting or exceeding lending industry standards for quality, timeliness, and foreclosure avoidance.	• Foreclosure avoidance through servicing (FATS) ratio.	$996	1.5%

Objective 2.1

Ease the reentry of new veterans into civilian life by increasing awareness of, access to, and use of VA health care, benefits, and services.

Performance Goal

Increase the percent of claimants who are Benefits Delivery at Discharge participants.

Twenty-two percent of claimants were Benefits Delivery at Discharge participants in 2003. The measure is new and still under development. A study is being conducted to evaluate the effectiveness of the program. The evaluation results will assist in determining future goals and how to increase the participation of all discharged servicemembers from all branches of service. Although we will continue to monitor our progress with this measure, it will no longer be reported as a key measure.

Performance Goal

Increase to 50 percent the VA medical centers that provide electronic access to health information provided by DoD on separated service persons.

In 2003, we surpassed our goal by achieving 100 percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons. The Federal Health Information Exchange/Government Computerized Patient Record is fully installed and functioning at all sites. The program offices will continue working with DoD to expand from the initial functionality of this electronic access process in order to further facilitate the transition of veterans from DoD to VA. Veterans will be fully integrated into their communities through transitional health care and readjustment counseling services.

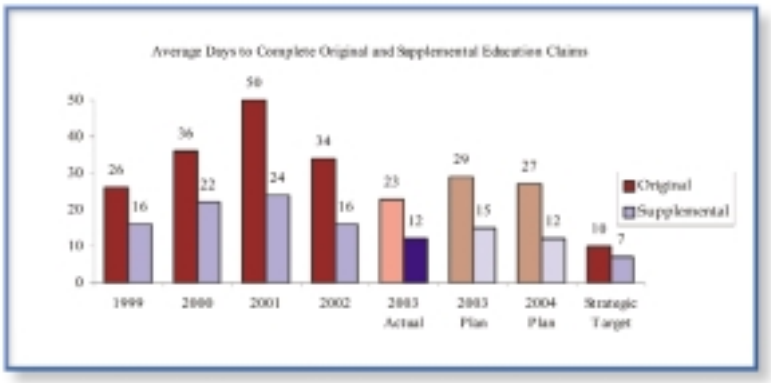
VHA measures success through the coordination of electronic information on separated service persons with DoD. Full access to this information will enable VA to provide a seamless transition for recently separated service persons enrolling in the VA health care system. The success of achieving this performance goal depended on VA and DoD cooperation, not only in implementing this initiative but also in the ability of the two agencies to develop a way for the systems to communicate electronically. VA is working with DoD officials to support claims development and the physical examination process prior to separation. In conjunction with DoD, VA develops and implements clinical practice guidelines with a long-range view toward ensuring continuity of care and a seamless transition for a patient moving from one system to the other.

Objective 2.2

Provide timely and accurate decisions on education claims and continue payments at appropriate levels to enhance veterans' and servicemembers' ability to achieve educational and career goals.

Performance Goal

Process original and supplemental education claims in 29 and 15 days, respectively.



We surpassed our goals for 2003 by achieving 23 days to process original education claims and 12 days to process supplemental education claims. We continued improvements to the Electronic Certification Automated Processing (ECAP) system, increasing the number of cases processed electronically. Approximately 6 percent of all incoming work is processed through ECAP. This is double the amount processed in 2002.

We continued to dedicate case managers for claims processing through the use of seasonal employees and education liaison representatives for other duties as necessary. Seasonal employees proved to be most beneficial during peak workload periods (August-October and January-February). We also made judicious use of overtime to reduce pending workload. Since the education business line receives the majority of its work during the spring and fall enrollment periods, we schedule overtime during these time periods to keep the pending workload under control.

A VBA team conducts on-site visits at each regional processing office (RPO) to monitor compliance and operational performance. In addition, ongoing quality assurance reviews are conducted for each RPO. VBA created an Intranet site with job aids to assist employees in processing claims and to allow sharing of best practices among the RPOs.

Legislation enacted in early 2002 contained provisions such as the acceleration of payment for high-technology courses and tuition assistance top-up (TOP-UP). Accelerated payment claims will be processed with a more time-consuming "out-of-system" approach for the foreseeable future until systems can be modified to accommodate these claims. TOP-UP claims will be processed in the system but will also require additional procedural steps. Since these types of claims require additional time to process, close monitoring will be necessary in 2004 to ensure that accomplishment of our performance goals is sustained.

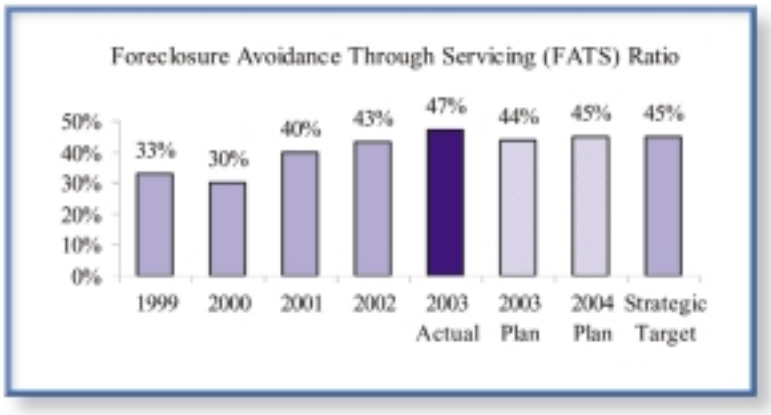
Overall processing timeliness is affected by the quality of the enrollment information and certification received from school officials. To improve overall processing time, VA developed an electronic education certification program (VACERT) that allows schools to send enrollment certifications to VA regional processing offices electronically. At this time, over half of all schools use VACERT. An Internet application, eCERT, will replace VACERT, making the application more attractive to schools. This system was deployed on a limited basis in 2003 and will be expanded in 2004. In addition, we continued to offer "new certifying official" training in 2003 and will continue in 2004. Certifying officials are employed by educational institutions to serve the veteran/student and submit enrollment information to VA for use in paying benefits. The more knowledge they possess, the more they are able to assist VA in serving veterans' needs.

Objective 2.3

Improve the ability of veterans to purchase and retain a home by meeting or exceeding lending industry standards for quality, timeliness, and foreclosure avoidance.

Performance Goal

Improve the foreclosure avoidance through servicing (FATS) ratio to 44 percent.



We surpassed our goal of 44 percent to improve the foreclosure avoidance through servicing ratio by achieving 47 percent in 2003.

VA began performing a complete review and redesign of the loan servicing function in 2003, which will continue in 2004. VA plans to move closer to performance and operational standards used by large private sector loan service providers and lenders. Among the standards being considered to prevent foreclosures and improve the FATS ratio will be an emphasis on the use of financial incentives as well as affording greater flexibility to primary loan service providers of VA-guaranteed loans.

Delinquent loan servicing has contributed to improvements to the FATS ratio over the last three fiscal years, and its importance will continue to be emphasized at the management and operational levels. Economic factors such as interest rates, real estate appreciation, and employment levels impact on the ability of veterans to purchase a home and avoid foreclosure in the event of default. Achievement of this performance goal is not directly dependent on other agencies. VBA has close interaction with the real estate industry.

Strategic Goal 3

Veterans will have dignity in their lives, especially in time of need, through the provision of health care, pension programs, and life insurance, and the Nation will memorialize them in death for the sacrifices they have made for their country. VA will achieve this goal by improving the overall health of and providing a continuum of health care for all enrolled veterans and eligible family members. VA will ensure that the burial needs of veterans and eligible family members are met, and provide veterans and their families with timely and accurate symbolic expressions of remembrance.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives.

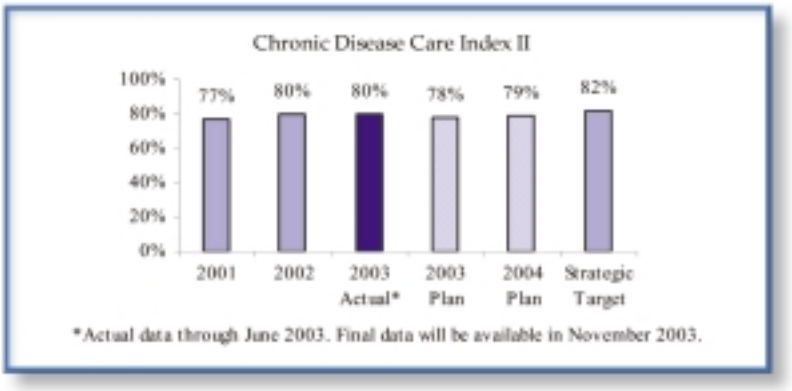
		FY 2003 Obligations ($ in Millions)	% of Total VA Resources
Strategic Goal 3 Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.		**$18,216**	**28.0%**
Objectives	**Performance Measures**		
3.1 Provide high quality, reliable, accessible, timely and efficient health care that maximizes the health and functional status for all enrolled veterans, with special focus on veterans with service-connected conditions, those unable to defray the cost, and those statutorily eligible for care.	• Chronic Disease Care Index II. • Prevention Index II. • Percent of patients rating VA health care service as "very good" or "excellent" – inpatient and outpatient. • Average waiting time for new patients seeking primary care clinic appointments. • Average waiting time for next available appointment in specialty clinic. • Increase the aggregate of VA, state, and community nursing home and non-institutional long-term care as expressed by average daily census – institutional and non-institutional.	$12,648	19.4%
3.2 Process pension claims in a timely and accurate manner to provide eligible veterans and their survivors a level of income that raises their standards of living and sense of dignity.	• See measures under 1.2	$3,372	5.2%
3.3 Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security for veterans' families.	• Average days to process insurance disbursements.	$1,945	3.0%
3.4 Ensure that the burial needs of veterans and eligible family members are met.	• Percent of veterans served by a burial option within a reasonable distance of their residence. • Percent of respondents who rate the quality of service provided by the national cemeteries as excellent.	$205	0.3%
3.5 Provide veterans and their families with timely and accurate symbolic expressions of remembrance.	• Percent of graves in national cemeteries marked within 60 days of interment.	$51	0.1%

Objective 3.1

Provide high quality, reliable, accessible, timely and efficient health care that maximizes the health and functional status for all enrolled veterans, with special focus on veterans with service-connected conditions, those unable to defray the cost, and those statutorily eligible for care.

Performance Goal

Increase the scores on the Chronic Disease Care Index II to 78 percent.



We surpassed our goal of 78 percent in 2003 to increase the scores on the Chronic Disease Care Index (CDCI) II by achieving 80 percent as of June 2003. Final data will be available in November 2003. VA ensures the consistent delivery of health care by implementing standard measures for the provision of evidence-based care by focusing on the use of the CDCI. This index is based on the performance of specific processes, provision of certain clinical services, or achievement of certain (proxy) outcomes for which the medical literature has documented evidence of a relationship to good health outcomes. The CDCI II measures how well VA follows nationally recognized clinical guidelines for treatment and care of patients with one or more high-volume diagnoses. A large percentage of veterans have one or more of these high-volume diseases, and improved management results in improved health outcomes for veterans.

VA has experienced success in a number of the individual indicators within the index, and the overall summary score reflects that success. In the future, indicators that have shown sustained performance will be retired and new indicators will be added that identify further opportunities for improving health care outcomes. This measure will be described in 2004 as the Clinical Practice Guidelines to reflect these modifications.

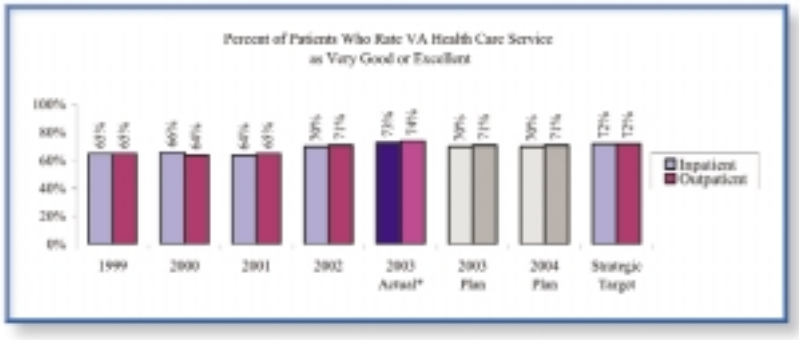
Performance Goal

Increase to 80 percent the scores on the Prevention Index II.

We surpassed our goal of reaching 80 percent on the Prevention Index II by achieving 83 percent as of June 2003. Final data for this measure will be available in November 2003. VA has continued to experience improvement on the index each year. The core indicators reflect the main prevention activities deemed key for the veteran population and these will continue to receive priority focus. VA continues to review and expand prevention measures as clinical evidence dictates. VA also includes additional patient populations when and where appropriate. The goal of these activities is to ensure consistent delivery of health care by implementing standard measures for the provision of preventive care. The prevention measure includes several indicators that allow comparison of VA and private health care outcomes. These comparisons demonstrate that VA meets or exceeds other health care agencies in many of the prevention indicators.

Performance Goal

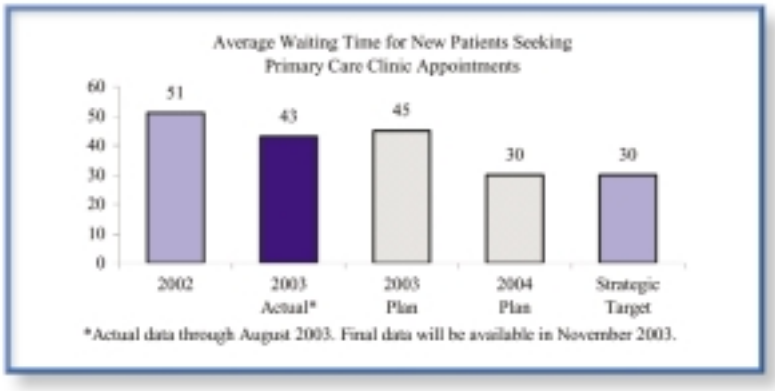
Increase to 70 percent the proportion of inpatients and to 71 percent the proportion of outpatients rating VA health care service as "very good" or "excellent."



Overall ratings of care as "very good" or "excellent" have risen from 2002 to 2003, and VHA was successful in surpassing the goals for 2003 by achieving 73 percent for inpatient satisfaction and 74 percent for outpatient satisfaction. Since the new survey is only in its second year, a trend analysis to determine the full implication of this increase is not yet possible. VHA will continue to strive to improve patient satisfaction in all areas of service. Surveys are sent to patients who have received care in both the inpatient and outpatient settings. Veteran satisfaction will continue to be benchmarked to other large organizations. The Survey of Health Experiences of Patients (SHEP) is a new inpatient and outpatient survey that incorporates new questions. VA began using SHEP in the second quarter of 2002. Access and waiting times will affect achievement of this performance goal. An increase in enrollment without a corresponding increase in resources would negatively impact patient satisfaction.

Performance Goal

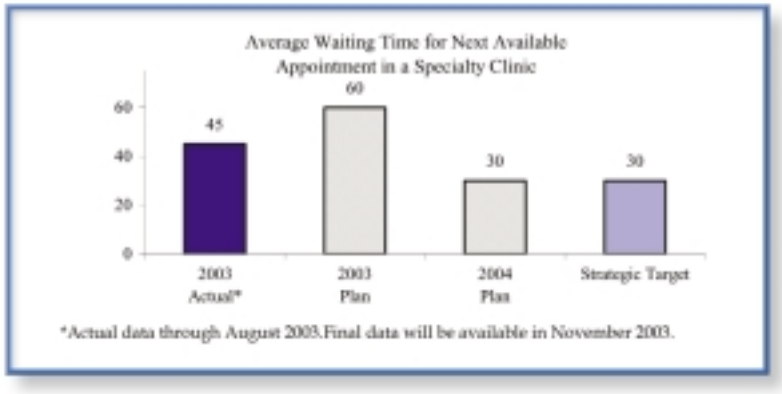
Reduce the average waiting time for new patients seeking primary care clinic appointments to 45 days.



VA surpassed the goal of reducing the average waiting time for new patients seeking primary care clinic appointments to 45 days by achieving 43 days as of August 2003. Final data will be available in November 2003. VA is working to improve access, convenience, and timeliness of VA health care services. Data on all current "waiting times" measures include all patient users except those pending scheduling of their first appointment, and therefore, show an incomplete picture. As a result, VA has developed other clinic wait time measures to quantify the wait times of new enrollees. The data from the new measures help improve decision-making as it relates to the increase in numbers of new enrollees. VA has also developed and is implementing a standardized entry process for new enrollees. This process will assist in the automated collection of relevant wait time information at the time a veteran enrolls in the system. Continued unlimited enrollment without corresponding resources to handle the expanding workload will result in longer waiting times.

Performance Goal

Reduce the average waiting time for the next available appointment in a specialty clinic to 60 days.



VA also focused efforts to reduce the average waiting time for next available appointments in specialty clinics to 60 days and, as of August, the average wait was 45 days. Final data will be available in November 2003. Initiatives to improve access to care continue to be a high priority. VA is working to improve access, convenience, and timeliness of VA health care services. Data on all current waiting times measures include all patient users except those pending scheduling of their first appointment and, therefore, show an incomplete picture. As a result, VA has developed other clinic wait time measures to quantify the wait times of patients new to the specialty clinic and those with an established relationship. The data from the new measures help improve decision-making. Continued unlimited enrollment without corresponding resources to handle the expanding workload would result in longer waiting times.

Performance Goals

Increase the aggregate of VA, state, and community nursing home and non-institutional long-term care as expressed by average daily census to 32,429 and 19,561, respectively.

VA fell short of achieving the goals of a lower average daily census of 32,429 for institutional care and a higher average daily census of 19,561 for non-institutional care but achieved 33,031 and 17,583 respectively, as of August 2003. Final data for both measures will be available in November 2003.

VHA is striving to meet the needs of veterans for both institutional nursing home care and non-institutional care. Enrollee demand for long-term care continues to shift from a focus primarily on institutional, or nursing home care to a more expansive use of non-institutional care, e.g., home-based primary care, adult day health care, etc., which demonstrates our commitment to providing quality health care in the most appropriate and least restrictive environment possible. Targets for non-institutional care were reduced to account for methodology changes in capturing and calculating census. Although VA fell slightly short of the revised 2003 goal of 19,561 average daily census, in part due to the availability of community resources, great strides have been made towards meeting the needs of veterans for these services.

In the coming year, focus will be on promoting even greater access to non-institutional services. VA is implementing a Care Coordination Program, a care delivery process that strives to maintain elderly veterans in the home setting as long as possible. In the face of a declining but aging veteran population, VA will continue to explore the use of community nursing home beds, and expand access to long-term care alternatives to institutional care with an emphasis on community-based and in-home care. The success of achieving this performance goal will partially depend on the availability of community resources capable of providing the necessary long-term care.

Objective 3.2

Process pension claims in a timely and accurate manner to provide eligible veterans and their survivors a level of income that raises their standard of living and sense of dignity.

The Department has adopted a new budget account structure that will allow us to more closely link resources with results and to understand better the full cost of our programs. One facet of this new account structure, which was presented with our 2004 Congressional budget, is to make a clear distinction between the compensation program and the pension program. Traditionally, these two programs have been viewed together as part of the overall claims processing activity in VA. But, as we move forward with the implementation of the new budget account structure, we are refining our performance measures so that they are more specifically linked to the two programs separately. Refer to page 39 for more information on the VA account restructuring initiative. Refer to page 45 for a discussion of the timeliness and accuracy of claims processing, which includes both compensation and pension claims. We will begin reporting these activities separately in 2004.

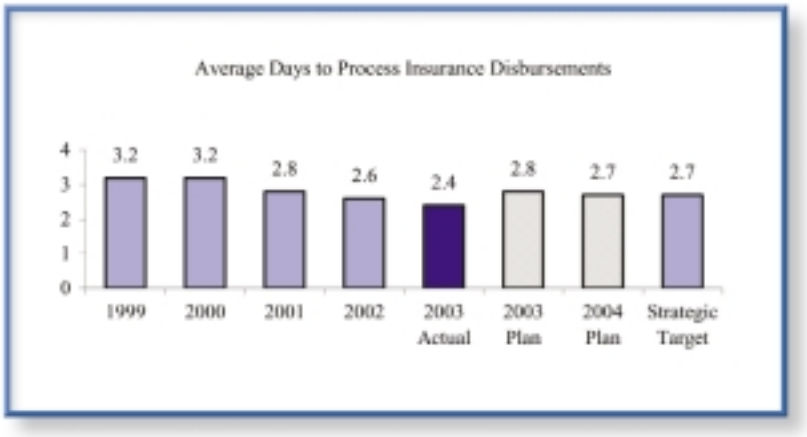
VA began to centralize processing of the pension maintenance workload in January 2002. Previously performed at all 57 regional offices, these functions have been consolidated at 3 sites. Centralized processing of the pension program allows the Department to focus more resources on the compensation claims inventory.

Objective 3.3

Maintain a high level of service to insurance policy holders and their beneficiaries to enhance the financial security for veterans' families.

Performance Goal

Maintain average processing time for insurance disbursements at 2.8 days.



The insurance program exceeded its plan of 2.8 days by maintaining an average processing time of 2.4 days for disbursements.

The single most significant factor impacting this measure is the Paperless Processing initiative. The imaging capabilities of this initiative will reduce the time required for processing disbursements and other services. The paperless workflow automatically routes work to appropriate staff, thus decreasing death claims processing time. The Paperless Office workflow pilot began in July 2002 with 1 percent of insurance death claims work and was expanded in September 2003 to include 100 percent of those claims.

In addition, we continue to enhance our paperless workflow procedures. The latest modification provides for an instantaneous automated screening of computer system inputs to determine if they meet programming specifications. If not, the person submitting the work is informed of the rejected inputs within 15 minutes so they can be corrected and re-inserted. Once passed through this screening, internal control auditors evaluate the work for accuracy and submit it to the system for final processing. This new workflow procedure will improve the timeliness of service to customers by enabling quicker turnaround time in processing rejects and will reduce the workload of our Internal Control Unit by reducing repeat verifications.

We have undertaken various other actions to improve the timeliness of disbursements, including special post office boxes, improvements in processing returned mail, and the elimination of data processing delays. For example, special post office box numbers are assigned for death claims, loans, and cash surrenders. Therefore, all disbursement applications are separated from the general correspondence by the Postal Service before they enter the insurance center. The applications are delivered directly to the operating divisions eliminating the time it would take to sort and distribute the mail.

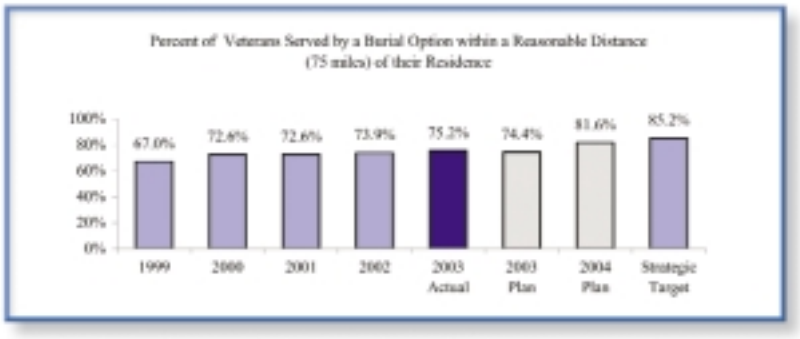
In 2004, we are planning to add both policy loans and cash surrenders into the paperless workflow. This should further improve our average processing time.

Objective 3.4

Ensure that the burial needs of veterans and eligible family members are met.

Performance Goal

Increase the percent of veterans served by a burial option in a national or state veterans cemetery within a reasonable distance (75 miles) of their residence to 74.4 percent by the end of 2003.



In 2003, VA exceeded the goal of providing a burial option to 74.4 percent of the veteran population within 75 miles of their residence by achieving 75.2 percent. VA's performance above plan was due in part to the opening of new state veterans cemeteries in 2003 and updated veteran population data.

In 2003, VA continued planning for the development of six new national cemeteries. When open, these cemeteries will provide a burial option within 75 miles of the residence of over two million veterans not currently served. In fall 2001, operations began at Fort Sill National Cemetery, near Oklahoma City. By the end of 2003, property had been acquired, and action is now underway, to develop new national cemeteries to serve veterans in the areas of Atlanta, Detroit, Pittsburgh, and South Florida. We are currently in the process of acquiring land for the establishment of a new national cemetery to serve veterans in the Sacramento area.

VA monitors gravesite usage and projects gravesite depletion dates at open national cemeteries that have land for future development. As those cemeteries approach their gravesite depletion dates, VA ensures that construction to make additional gravesites or columbaria available for burials is completed. In 2003, VA completed construction projects to extend burial operations at four national cemeteries. Appropriate land acquisition is a key component to providing continued accessibility to burial options. VA will continue to identify national cemeteries that are expected to close due to depletion of grave space and determine the feasibility of extending the service life of those cemeteries by acquiring adjacent or contiguous land or by constructing columbaria. These actions, which depend on such factors as the availability of suitable land and the cost of construction, are not possible in every case.

To complement our system of national cemeteries, VA administers the State Cemetery Grants Program, which provides grants to states of up to 100 percent of the cost of establishing, expanding, or improving veterans cemeteries owned and operated by the states. In 2003, a total of 54 operating state veterans cemeteries performed over 18,000 interments, and grants were obligated to establish, expand, or improve state veterans cemeteries in 11 states. In 2003, new state veterans cemeteries began operations at Bloomfield and Jacksonville, Missouri; Caribou, Maine; Fort Dodge, Kansas; and Fort Huachuca, Arizona. These five state veterans cemeteries provide a burial option within 75 miles of the residence of more than 140,000 veterans and their families not previously served.

Performance Goal

Increase the percent of respondents who rate the quality of service provided by the national cemeteries as excellent to 95 percent in 2003.

Satisfaction with the quality of service provided by national cemeteries has improved since 2002 and remains at a high level. Ninety-four percent of respondents rated the quality of service provided by the national cemeteries as excellent in 2003, falling short of VA's goal by 1 percent. VA strives to provide high quality, courteous, and responsive service in all of its contacts with veterans and their families. Cemetery service goals are set high in keeping with the expectations of the families of individuals who are interred and other visitors. NCA is reviewing information provided by survey respondents to identify opportunities for improvement.

To further enhance access to information and improve service to veterans and their families, NCA installs kiosk information centers at national and state veterans cemeteries to assist in finding exact gravesite locations. In addition to providing the visitor with a cemetery map for locating the gravesite, the kiosk information center provides such general information as the cemetery's burial schedule, cemetery history, burial eligibility, and facts about the National Cemetery Administration.

Veterans and their families have indicated that they need to know the interment schedule as soon as possible in order to finalize necessary arrangements. To meet these expectations, VA strives to schedule committal services at national cemeteries within 2 hours of the request. In 2003, 73 percent of funeral directors responded that national cemeteries confirmed scheduling of the committal service within 2 hours.

In order to accommodate and better serve its customers, VA designated Jefferson Barracks National Cemetery to provide weekend scheduling of the interment in a national cemetery for a specific time in the ensuing week.

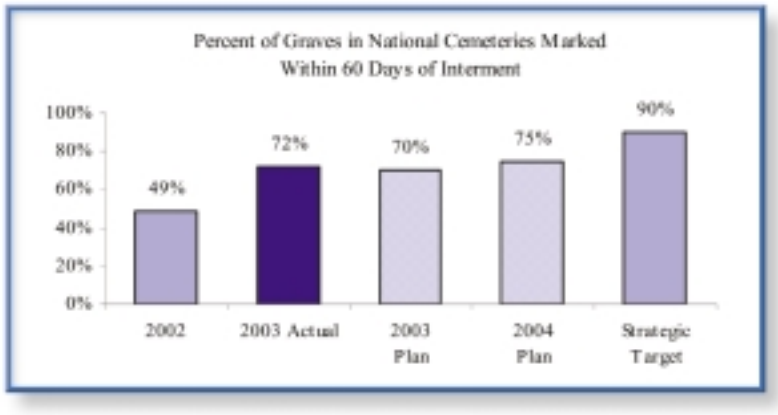
Veterans and their families have indicated provision of military funeral honors for the deceased veteran is important to them. While VA does not provide these honors, national cemeteries continued to work closely with DoD and veterans service organizations by supplying logistical support to the military funeral honors teams.

Objective 3.5

Provide veterans and their families with timely and accurate symbolic expressions of remembrance.

Performance Goal

Increase the percent of graves in national cemeteries marked within 60 days of interment to 70 percent in 2003.



For 2003, VA exceeded by 2 percent the planned goal of marking 70 percent of graves in national cemeteries within 60 days of the date of interment. To achieve this goal, NCA focused on reengineering business processes, such as ordering and setting headstones and markers, and provided online monthly and fiscal year-to-date tracking reports to NCA field and Central Office employees on the timeliness of marking graves. Increasing the visibility and access of this information reinforced the importance of marking graves in a timely manner and provided managers with a tool to identify process improvement opportunities.

NCA also tested a program at five national cemeteries for locally inscribing headstones and markers in order to decrease the time it takes to mark graves after an interment. By performing inscriptions locally, using blank headstones and markers stored at the cemetery, NCA was able to decrease the number of days between an interment and the subsequent marking of a grave by reducing headstone and marker manufacturing and shipping times. In addition, this program generated a cost savings of approximately $1 million through economies of scale in the purchasing, inscribing, and transporting of headstones and markers.

Due to the success of the local inscription pilot program in 2003, NCA plans to expand it to include additional national cemeteries in 2004. NCA will also continue to focus on business process reengineering opportunities, including improving accuracy and operational processes, in order to reduce delays in marking graves caused by inaccurate or damaged headstones and markers delivered to the gravesite.

Two major external factors influence the timeliness of marking graves at national cemeteries. First, NCA is dependent upon contractors throughout the country for the manufacturing and shipping of headstones and markers. The performance of these contractors greatly affects the quality of service provided to veterans and their families. Second, extremes in weather, such as periods of excessive rain or snow, or extended periods of freezing temperatures that impact ground conditions, can cause delays in both the delivery and installation of headstones and markers.

Strategic Goal 4

VA will support the public health of the Nation as a whole through medical research and medical education and training, and by serving as a resource in the event of a national emergency or natural disaster. VA will support the socioeconomic well-being of the Nation through the provision of education, vocational rehabilitation, and home loan programs. VA will also preserve the memory and sense of patriotism of the Nation by maintaining our national cemeteries as national shrines and hosting patriotic and commemorative ceremonies and events.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives.

		FY 2003 Obligations ($ in Millions)	% of Total VA Resources
Strategic Goal 4 Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.		**$997**	**1.5%**
Objectives	**Performance Measures**		
4.1 Improve the Nation's preparedness for response to war, terrorism, national emergencies, and natural disasters by developing plans and taking actions to ensure continued service to veterans as well as support to national, state, and local emergency management and homeland security efforts.	No Key Measure	<$1M	<0.1%
4.2 Advance VA medical research and development programs that address veterans' needs, with an emphasis on service-connected injuries and illnesses, and contribute to the Nation's knowledge of disease and disability.	• Percent of research projects devoted to the Designated Research Areas.	$463	0.7%
4.3 Sustain partnerships with the academic community that enhance the quality of care to veterans and provide high quality educational experiences for health care trainees.	No Key Measure	$454	0.7%
4.4 Enhance the socioeconomic well-being of veterans, and thereby the Nation and local communities, through veteran's benefits; assistance programs for small, disadvantaged, and veteran-owned businesses; and other community initiatives.	No Key Measure	<$1M	<0.1%
4.5 Ensure that national cemeteries are maintained as shrines dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice veterans have made.	• Percent of respondents who rate national cemetery appearance as excellent.	$80	0.1%

Objective 4.1

Improve the Nation's preparedness for response to war, terrorism, national emergencies, and natural disasters by developing plans and taking actions to ensure continued service to veterans as well as support to national, state, and local emergency management and homeland security efforts.

During 2003, VA continued to strengthen its emergency management infrastructure by consolidating Departmental emergency preparedness oversight, emphasizing exercising and training of "successors" and improving infrastructure.

The Secretary of Veterans Affairs consolidated the Department's emergency preparedness and security and law enforcement oversight within the office of the Assistant Secretary for Policy and Planning. The restructured office was designated as the Office of Policy, Planning, and Preparedness. Organizationally, the emergency preparedness functions fall under the director of Operations and Readiness and the Deputy Assistant Secretary for Security and Law Enforcement.

During 2003, VA completed the following emergency management activities:

- Participated in both internal and inter-departmental exercises.
- Continued to train decontamination teams.
- Conducted regular training for officials in the line of succession.
- Continued twice-weekly meetings of the Crisis Response Team to monitor, evaluate, and respond to events not requiring activation of VA's Continuity of Operations plan.
- Developed individual contingency plans for several events at possible risk for terrorist attack or other disruption (e.g., July 4th, and anniversary of September 11th terrorist attack).
- Enhanced communications and made structural modifications to alternate operations sites.
- Procured 122 out of a planned 143 pharmaceutical caches for VA medical centers to enable continued care for VA patients and staff if supply is disrupted.

VA works in cooperation with numerous federal agencies to further this objective. Senior leadership participates in Homeland Security and Deputies Council meetings. VA also serves on policy coordinating committees and work groups of the Department of Homeland Security, and on work groups with the Departments of Health and Human Services, Justice, Defense, Energy, and Agriculture to establish governmental policy regarding response and recovery, training and exercises, research and development, and medical and public health preparedness.

The Department is participating in the interdepartmental effort to develop a new National Response Plan and National Incident Management System in response to Homeland Security Presidential Directive 5.

Central Office officials and a number of the Veterans Integrated Service Networks (VISNs) participated in the nationwide exercise TOPOFF 2, a major biennial exercise mandated by Congress and designed to provide training in the event of an attack with weapons of mass destruction.

There are currently no key performance measures associated with this objective.

Objective 4.2

Advance VA medical research and development programs that address veterans' needs, with an emphasis on service-connected injuries and illnesses, and contribute to the Nation's knowledge of disease and disability.

Performance Goal

Maintain the percent of research projects devoted to the Designated Research Areas at 99 percent.

In 2003, the Research and Development Program accomplished its goal of ensuring that VA research is dedicated to meeting the special needs of the veteran population by achieving the goal of 99 percent. VA conducts medical research that leads to demonstrable improvements in the lives of veterans, their families, and the general public. VA has established designated research areas in which VA-sponsored research will be conducted. These areas include: Aging, Chronic Disease, Mental Illness, Substance Abuse, Sensory Loss, Trauma-Related Illness, Health Systems, Special Populations, and Military Occupations and Environmental Exposure. VA's Office of Research Compliance and Assurance advises the Under Secretary for Health on matters affecting the integrity of research protections, promotes the ethical conduct of research, and investigates allegations of research impropriety. VHA will continuously promote excellence and innovation in the education of future health care professionals. Achievement of this performance goal is partly contingent on the cooperation of other government and non-government agencies that partner with VA on some research projects. Much of the research conducted in VA facilities is subject to the regulations of other federal agencies in addition to VA's own regulations. VA works closely with the National Institutes of Health (NIH) and the Department of Health and Human Services on joint studies funded by NIH. Similarly, VA works closely with the Food and Drug Administration on human studies funded by pharmaceutical companies in support of a new drug or device application.

Performance measures to support this objective are currently under development. This measure will not be a key measure in future years.

Objective 4.3

Sustain partnerships with the academic community that enhance the quality of care to veterans and provide high quality educational experiences for health care trainees.

VA conducts an education and training program for health profession students and residents to enhance the quality of care provided to veteran patients within the VHA healthcare system. Education and training efforts are accomplished through coordinated programs and activities in partnership with affiliated academic institutions. VA's graduate medical education is conducted through affiliations with university schools of medicine. Each year, over 76,000 students from all health profession fields receive some or all of their clinical training in VHA facilities through affiliations with over 1,200 educational institutions. Currently, 130 VHA medical facilities are affiliated with 107 of the Nation's 126 medical schools. Through these partnerships, almost 28,000 medical residents and 16,000 medical students receive some of their training in VA every year. VA supports 8,800 physician resident positions in almost 2,000 ACGME-accredited university programs. Historically, VA has also been a leader in the training of associated health professionals. Through affiliations with individual health profession schools and colleges, clinical traineeships and fellowships are provided to students in more than 40 professions including nurses, pharmacists, dentists, audiologists, dietitians, social workers, psychologists, physical therapists, optometrists, nuclear medicine technologists, physician assistants, respiratory therapists, and nurse practitioners. Approximately 32,000 allied health profession students receive training in VA facilities each year.

There are currently no key performance measures associated with this objective.

Objective 4.4

Enhance the socioeconomic well-being of veterans, and thereby the Nation and local communities, through veteran's benefits; assistance programs for small, disadvantaged, and veteran-owned businesses; and other community initiatives.

Our nation has an obligation to provide servicemembers and veterans with the means to take advantage of the opportunities protected and preserved by their service. In June 2002, the VA Procurement Executive and the Director of the Office of Small and Disadvantaged Business Utilization established the Veteran-Owned and Service-Disabled Veteran-Owned Small Business Task Force to develop strategies to help VA attain procurement goals in these two important socioeconomic categories. The task force ultimately identified 5 goals and made 16 recommendations with action steps to improve VA's veteran-owned and service-disabled veteran-owned small business accomplishments. The VA Secretary approved the task force's report in March 2003. Implementation of the recommendations is underway.

VA promotes business ownership through its Transition Assistance Program (TAP) and the Center for Veterans Enterprise. VA's program evaluation of the educational assistance programs demonstrated a positive return on investment of 2 to 1 in the form of increased income taxes for every program dollar spent.

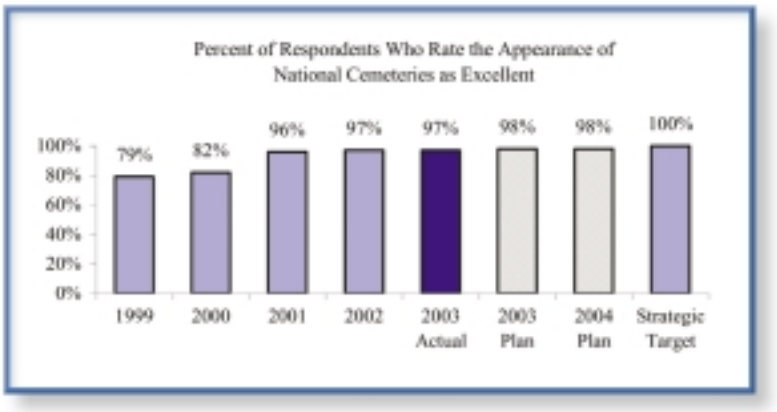
There are currently no key performance measures associated with this objective.

Objective 4.5

Ensure that national cemeteries are maintained as shrines dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice veterans have made.

Performance Goal

Increase the percent of respondents who rate national cemetery appearance as excellent to 98 percent in 2003.



The percent of respondents rating cemetery appearance as excellent remained at the same high level as in 2002 at 97 percent, although we did not meet the 2003 goal by 1 percent. Cemetery appearance goals are set high in keeping with the expectations of the families of those who are interred and other visitors.

To ensure the appearance of national cemeteries meets the standards our Nation expects of its national shrines, VA performs a wide variety of grounds management functions. Over time, extremes in weather, such as excessive rain or drought, can result in or exacerbate sunken graves or markers, soiled markers, inferior turf cover, and weathering of columbaria. In 2003, work was done to raise, realign, and clean headstones and markers to ensure uniform height and spacing, and to correct ground sinkage around gravesites.

National Shrine Commitment projects were initiated at the Baltimore, Crown Hill, Dayton, Golden Gate, Long Island, Marion, New Albany, Puerto Rico, Santa Fe, Willamette, and Wood National Cemeteries. These projects will raise, realign, and clean over 80,000 headstones and markers and renovate gravesites in more than 107 acres. While attending to these highly visible aspects of our national shrines, VA also maintained roads, drives, parking lots, and walks; painted buildings, fences, and gates; and repaired roofs, walls, and irrigation and electrical systems.

In 2003, VA established standards and measures for key operational processes including interments, grounds maintenance, and headstones and markers. In conjunction with these standards, NCA initiated an Organizational Assessment and Improvement Program to identify and prioritize continuous improvement opportunities, and to enhance program accountability by providing managers and staff at all levels with one NCA "scorecard." In 2004, assessment teams will begin to conduct site visits to all national cemeteries. All national cemeteries will be visited on a rotating basis to validate performance reporting.

VA continued its partnerships with various VA and civic organizations that provide volunteers and other participants to assist in maintaining the appearance of national cemeteries. An interagency agreement with the Bureau of Prisons provides for the use of selected prisoners to perform work at national cemeteries. This agreement provides a supplemental source of labor to assist in maintaining the national cemeteries.

Enabling Goal

VA's enabling goal is different from the four strategic goals. The enabling goal and its corresponding objectives represent crosscutting activities that support all VA organizational units in carrying out the Department's mission. The activities focus on enhancing workforce assets and internal processes, improving communications, and furthering a crosscutting approach to providing seamless service to veterans and their families through an improved governance structure that applies sound business principles. As such, many of these activities are transparent to veterans and their families. However, they are critical to our stakeholders and VA employees who implement our programs. VA is making efforts to operate as an integrated veteran-centric organization. We will achieve this goal while ensuring full compliance with applicable laws, regulations, financial commitments, and sound business principles.

The following table identifies estimates of the total resources devoted to this strategic goal and its associated objectives.

		FY 2003 Obligations ($ in Millions)	% of Total VA Resources
Enabling Goal **Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology, and governance.**		**$851**	**1.3%**
Objectives	**Performance Measures**		
E-1 Recruit, develop, and retain a competent, committed, and diverse workforce that provides high quality service to veterans and their families.	No Key Performance Measures	$81	0.1%
E-2 Improve communications with veterans, employees, and stakeholders about the Department's mission, goals, and current performance as well as the benefits and services VA provides.	No Key Performance Measures	$14	<0.1%
E-3 Implement a *One VA* information technology framework that supports the integration of information across business lines and that provides a source of consistent, reliable, accurate, and secure information to veterans and their families, employees, and stakeholders.	No Key Performance Measures	$106	0.2%
E-4 Improve the overall governance and performance of VA by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management; acquisition and competitive sourcing; and linking strategic planning, budgeting, and performance planning.	• Ratio of collections to billings. • Dollar value of sharing agreements with DoD ($ in millions).	$651	1.0%

In addition to the two key performance measures associated with the enabling goal, there are several activities under this goal that support high-quality service to our veterans:

- Enhanced accountability for performance
- Enterprise architecture
- Information security
- Program evaluation
- Capital asset management
- Greater use of performance-based contracts
- Procurement reform

Note: The item on budget account restructuring, which was previously reported under the Enabling Goal, now appears under the President's Management Agenda section on page 31.

E-1

Recruit, develop, and retain a competent, committed, and diverse workforce that provides high quality service to veterans and their families.

The Office of Human Resources Management (OHRM) has taken the lead on VA's commitment to recruit, develop, and retain a competent, committed, and diverse workforce. During 2003, OHRM developed and implemented several strategies designed to retool, rework, and refine VA's Human Resources program. These include establishing a formal requirement to prepare workforce and succession plans by organization, creating the Department's first Strategic Human Capital Plan, and addressing material weaknesses in human resource accountability and reporting systems identified by an Office of Personnel Management audit. In 2004, OHRM will continue to advance these initiatives as well as establish new ones.

In January 2003, VA published Directive 5002 and established a uniform, Departmentwide workforce and succession planning process aligned with the strategic planning, budget, and legislative processes. This policy establishes the requirements for an assessment of the workforce necessary to accomplish program goals; the current and projected workforce in terms of these goals, leadership needs, and workforce diversity; and strategies to obtain the required workforce for the future.

In July 2003, the Secretary signed the Department's Strategic Human Capital Plan. This plan includes an overview of past and projected workforce trends; summaries of workforce plans developed by VHA, VBA, NCA, and VA Headquarters organizational components; and strategies to ensure that VA recruits, retains, and develops a quality and diverse workforce to serve veterans.

In the next step of the human capital planning process, VA's Office of Workforce Planning will evaluate each organizational plan, assessing its strengths and weaknesses with recommendations for improvement. In addition, the office will dedicate an organizational liaison to serve as a subject matter expert for each plan. VA will assess its workforce plans on an ongoing basis to meet the strategic goals of the Department.

VA Directives 5004 and 5005 implemented online entrance/exit surveys. The surveys were designed to capture the reasons why employees chose to work at VA or why they elected to end their employment with VA. As of August 2003, approximately 1,200 surveys were completed. The results are available at the national and facility levels and can be sorted by organization, occupation, age categories, and other selective components. The first national summary of data was published in October 2003 on the Office of Human Resources Management's Web site.

The Office of Human Resources Management created the Oversight and Effectiveness Service to provide leadership for VA HRM accountability and merit system compliance to include the development, revision, issuance, and implementation of standards and metrics of accountability. The new staff conducts statistical data collection, performs analysis, and oversees reporting systems covering title 5 and title 38. The staff will also develop guidance on merit system accountability, and through its evaluation process, require appropriate corrective action for systemic deficiencies (to include limiting and/or revoking delegated HR authorities).

During 2003, the Oversight and Effectiveness Service initiated the following:

- Conducted an initial assessment of VA human capital programs using the Office of Personnel Management's (OPM) Human Capital Assessment and Accountability Framework;
- Identified VA human capital goals, initial measures, and accountable organizations that align with the HR Standards for Success;
- Identified VA components of an accountability system by reviewing VA action plans supporting strategic human capital goals;
- Determined the need for revised Departmentwide policy guidance to supplement and implement OPM

accountability criteria and standards and began drafting new policy; and
- Initiated development of a directive to require VA field facilities to conduct self-assessments of their HR program.

Plans for FY 2004 include:

- Issue revised Departmentwide policy on HR accountability;
- Issue policy requiring VA Administrations to conduct annual self-assessments;
- Design data collection, reporting, and monitoring tools to review facility HR programs for efficiency and effectiveness of operating HR and merit system compliance;
- Set in place methods to assess accomplishments with identified metrics associated with organizational action plans;
- Ensure, review, and certify facility self-assessments to identify best practices and systemic deficiencies; and
- Begin on-site reviews, recommending appropriate adjustments and corrective measures.

There are currently no key measures for this objective.

E-2

Improve communications with veterans, employees, and stakeholders about the Department's mission, goals, and current performance as well as the benefits and services VA provides.

VA conducts outreach and education activities for the veteran community and the general public through news releases, articles appearing in veterans service organization publications, public service announcements, and presentations to schools and community organizations. We will continue to sponsor special events for veterans such as the National Disabled Veterans Winter Sports Clinic, National Veterans Wheelchair Games, National Veterans Golden Age Games, and National Veterans Creative Arts Festival. VA will continue to communicate the Department's successes and challenges in publications such as this report.

There are currently no key measures for this objective.

E-3

Implement a One VA information technology framework that supports the integration of information across business lines and that provides a source of consistent, reliable, accurate, and secure information to veterans and their families, employees, and stakeholders.

Enterprise Architecture

Enterprise architecture (EA) is the guiding principle for streamlining and modernizing VA's information technology. The "enterprise" is VA and the "architecture" is the complex framework of processes, systems, and programs by which VA provides health care, benefits, and memorial services to veterans and their families. In 2003, the Office of the Chief Information Officer (CIO) accomplished the following:

- Developed version 2.1 of the VA Enterprise Architecture, which established detailed requirements and mechanisms for validating compliance in multiple Departmental processes including project management oversight, capital planning, and the overall budget submission preparation;
- Developed the VA EA Program Management Plan, which formalizes the execution of the *One VA* EA program as a continuous improvement process, and will be reviewed on a regular update cycle;
- Developed and automated the VA Technical Reference Model and Standards Profile, version 2.0. It forms a knowledge base to provide a common conceptual framework and define a common vocabulary and a set of services and interfaces that are, or will be, common to VA systems.

In 2004, the Office of the Chief Information Officer plans to continue development of the EA (version 3.0) with models and graphics emphasizing system relationships and functionalities. Priorities also include completion of the repository for EA artifacts and documents, as well as modernizing the EA Web site to utilize user-friendly Web interfaces and enhanced search capabilities.

VA established the *One VA* Project Management Training Program to increase the number of certified project managers and team members. The program was introduced in 2003 and to date, of the 560 individuals participating in the program, 121 employees were certified at Level I; 2 employees were certified at Level II; and 15 employees were certified at Level III. Training certification will continue during 2004.

VA initiated the Telecommunications Modernization Project (TMP) to optimize the existing wide area network (WAN) architecture into an integrated data services platform that provides securable telecommunications to support all subscriber applications across the Department.

The four fully-meshed core sites that provide high-speed switching/routing of traffic are built and operational. All main data centers have a direct and immediate connection to core sites. One hundred percent of the distribution nodes that perform the policy-based operations, the aggregation, summarization, and classification of data traffic are built. Ninety-five percent of the stand-alone special business units, previously connected to the WAN backbone, have transitioned to the TMP architecture.

The foundation for building the access layer in Phase IV has been laid. In 2004, the TMP will continue with Phase IV implementation. This phase will continue to run for the next 12 months, establishing a *One VA* WAN with 19 regions. Each one will have a regional service manager to serve the needs of all tenants.

Information Security Program

The Office of Cyber and Information Security (OCIS) is responsible for providing services to veterans that protect the confidentiality, integrity, and availability of their private information; enabling the timely, uninterrupted, and trusted nature of services provided; and providing assurance that cost-effective cyber security controls are in place to protect automated information systems from financial fraud, waste, and abuse. OCIS accomplished the following during 2003:

- Implemented and tested an Enterprise Cyber Security Infrastructure Project (ECSIP) pilot at VA's Austin Automation Center, helped implement additional intrusion detection systems at VA facilities, and began work to implement ECSIP at four national Internet gateways. The more than 200 existing gateways will then be consolidated into one of the four national gateways, with exceptions approved only where an acceptable level of intrusion detection can be provided.
- Established a fully functional Network and Security Operations Center (NSOC), operational 24 hours a day, 7 days a week (24/7). The NSOC manages all VA intrusion detection systems, and provides real-time analytical incident support, event correlation and analysis, and audit log analysis. The NSOC mitigated the impact of several major computer viruses and worms on VA systems and networks during 2003.
- Established a fully functional, 24/7 Central Incident Response Capability (CIRC). The CIRC captures all cyber security incidents reported from VA facilities, and coordinates with other Federal agency, vendor, and university emergency response teams to analyze and remediate cyber security threats. In addition, the CIRC performed vulnerability and penetration scans.
- Implemented a VA-wide Virtual Private Network for more than 15,000 users, and began shutting down all remote dial-up access to the VA network.
- Submitted quarterly and annual reporting and updated action plans and milestones for Federal Information Security Management Act (FISMA) deficiencies. These remediation efforts resulted in a 45 percent[1] remediation rate for the year, allowing the Department to reach its goal of achieving Federal Information Technology Security Assessment Framework (FITSAF) Level 3 in 2003.
- Established a fully functional Review and Inspections Division (RID) to provide oversight and validation that FISMA deficiency remediation reporting was accurate and satisfied the intent of the FISMA legislation. RID coordinates with the Office of the Inspector General to confirm that reported remediation activities are in place.
- Established a fully functional Health Information Security Division (formerly the Center for Healthcare Information Security) that provides analysis, certification, and accreditation for medical devices connected to VA networks.
- Partnered with VA's Employee Education Service to develop and implement a cyber security awareness course for all 212,000 plus employees as well as contractors and volunteers. Bringing this capability in-house avoided vendor contract costs exceeding $300,000 per year.
- Provided guidance and oversight to VA teams who are performing risk analysis, remediation, and independent testing to certify and accredit more than 800 VA systems.
- Rolled out an Information Security Officer (ISO) Cyber Security Professionalization (CSP) program, which included training, certification, and credentialing for more than 600 full-time ISOs and OCIS staff.
- Centralized responsibility for all cyber and information security planning and oversight into the Office of Cyber and Information Security. Consolidated cyber security staff positions and budgets within the Department.
- Issued security configuration guidance for various software applications in current use. Awarded a

[1] *VA has remediated 6,278, or 45 percent, of the 13,951 deficiencies identified in the 2002 Annual GISRA Survey. Of this total, 3,913, or 28 percent, were remediated during the 3rd quarter, ending June 30, 2003.*

contract to develop security configuration guides for legacy systems and Web servers.
- Began work on a VA-wide Authentication and Authorization Infrastructure Project to provide SmartCard access to all VA workstations, networks, and applications.
- Began work on developing policy, procedures, and oversight for software configuration and change management. This initiative represents over half of all remaining FISMA deficiencies, and is a requirement to reach level 4 of the Federal Information Technology Security Assessment Framework and to remove the material weakness identified by the OIG and the independent auditor.

In 2004, OCIS will build upon the foundation established over the past 2 years. The boundary of the VA enterprise will be secured. In conjunction with the Telecommunications Modernization Program, all Internet connections will be migrated to one of four national Internet gateways with strong intrusion detection. The new Virtual Private Network replacing dial-up access will be fully operational. The primary and back-up Network and Security Operations Centers and VA-CIRC will provide a fully integrated and centrally managed information security defense. The largest Public Key Infrastructure program outside of DoD will begin. Application Certification and Accreditation will be a major focus along with FISMA deficiency remediation, with the goal of eliminating the material weakness and achieving FITSAF level 4 by 2004. The Review and Inspections Division will be fully staffed and will help ensure the accuracy of FISMA remediation and reporting. Privacy awareness, education, and compliance efforts will continue according to plan. All Information Security Officers will be certified and credentialed, and VA will have the largest population of Certified Information System Security Professionals in government. These efforts will support VA becoming the model government cyber security program with a standardized, secure, controlled environment, where the organizational culture collaboratively balances business requirements with security to meet VA's missions.

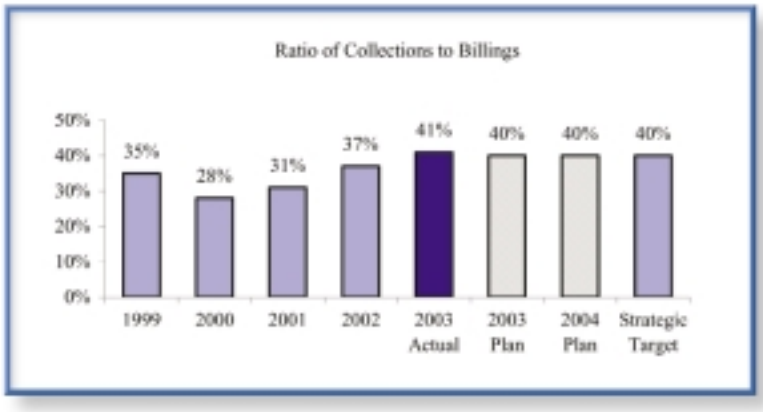
There are currently no key measures for this objective.

E-4

Improve the overall governance and performance of VA by applying sound business principles, ensuring accountability, and enhancing our management of resources through improved capital asset management; acquisition and competitive sourcing; and linking strategic planning, budgeting, and performance planning.

Performance Goal

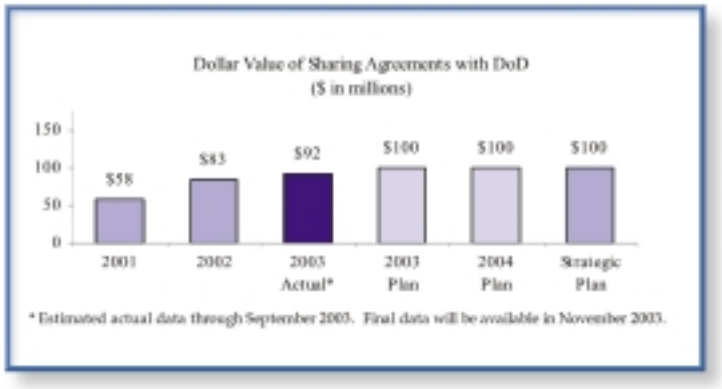
Increase the ratio of collections to billings to 40 percent in 2003.



The ratio of collections to billings goal of 40 percent was surpassed for the year with an achievement of 41 percent. VHA continues to improve practices and provide mechanisms to aggressively implement those practices across the system. VHA will assess and align the health care system to enhance cost-effective care for veterans. We will focus on increasing revenue and efficiency through better collections and improved business practices. Managers will be held accountable for performance through performance agreements. Improving collections and billings will be a priority to improve revenue. Achievement of this performance goal is largely contingent on the willingness of first and third parties to pay their bills.

Performance Goal

Increase the dollar value of sharing agreements with DoD to $100 million in 2003.



VA did not achieve the goal of increasing the dollar value of sharing agreements with DoD to $100 million but has estimated over $92 million in sharing for 2003. The final data will be available in November 2003. VHA and DoD work collaboratively through the VA/DoD Health Care Executive Committee to drive the sharing process and monitor performance. Major local initiatives, such as the proposed North Chicago VA Medical Center sharing agreement with the Navy and national collaboration on the Tricare-Next Generation Request for Proposals (T-Nex RFP), will also drive increases. VBA has an interagency service agreement with DoD at selected overseas military bases to perform disability examinations at discharge and provide support services to VBA personnel. The VBA portion of the total dollar volume of VA/DoD sharing agreements in 2004 is less than 3 percent. While efforts are underway to document the value of sharing that is not tabulated in VA's or DoD's accounting systems, the new reimbursement rate, 90 percent of CHAMPUS Maximum Allowable Charges for all clinical services, may actually lead to decreased sharing. Crosscutting activities include the following:

- VA and DoD work to increase utilization of the same pharmaceutical and medical products resulting in increased leverage in Federal Supply Schedule or other joint contracting negotiations.
- VA and DoD have jointly established and cooperatively funded four traumatic brain injury (TBI) lead centers to screen all TBI patients and maintain a national registry of TBI patients.
- VA, by Public Law 97-174, has the added mission to serve as principle health care backup to DoD in the event of war or national emergency. At the request of DoD, VA may authorize DoD to use its medical facilities (hospital and nursing home care), medical services, office space, supplies, and administrative support.
- VA partners with DoD's Pacific e-Health Center in Honolulu to provide peer consultation and patient care to participants separated by distance.
- VA and DoD participate in the Alaska Federal Health Care Partnership, with a goal of providing specialized care to isolated or remote patient populations in Alaska.
- VA's Cooperative Studies Program collaborates with DoD on a number of studies, including an antibiotic treatment trial and an exercise/behavioral medicine treatment trial for Gulf War Syndrome.

Program Evaluation

The Department conducts program evaluations to assess, develop, and update program outcomes, goals, and objectives to compare actual program results with established goals.

VA completed a program evaluation on cardiac care in April 2003. The evaluation involved two clinical cohorts of patients – those who had had an acute myocardial infarction, or heart attack, and those who had had a percutaneous coronary intervention such as angioplasty or coronary artery bypass graft surgery but had not had a heart attack. The evaluation found that in comparison to risk-adjusted patients who had heart attacks treated under the Medicare program, VA patients had statistically higher mortality rates, had fewer procedures performed, and traveled almost twice as far to receive their care. VHA developed an action plan to improve cardiac care. A blue ribbon panel of national experts was commissioned to oversee the plan's quality improvements for VA cardiac care programs. All VA hospitals were required to provide detailed plans on how they intended to improve the quality of care at their facility. These plans are currently being reviewed for adequacy.

VA completed an evaluation of the Prosthetics and Sensory Aids Service in early 2003. The evaluation included several patient populations, their clinical outcomes, satisfaction, and access to services. The study identified considerable variability in the home oxygen

contracts across the country, in patient access to cochlear implants, in services provided by orthotics and prosthetics labs and their ability to become accredited, and in the implementation of Preservation Amputation Care and Treatment programs. It also showed that a significant number of veterans receive computer readers and training in using them, and there is extensive adherence to screening protocols for patients at risk for amputations, widespread use of automated implantable cardiac defibrillators, and satisfaction with motorized wheelchairs and prosthetic devices.

In 2002, VA initiated a comprehensive evaluation of the Department's emergency preparedness and the ability to provide health care backup to DoD and to the Nation. A study conducted by the National Institute of Building Sciences developed criteria for identifying VA's critical infrastructure, 14 full assessments of VA's most critical facilities, and preliminary assessments of an additional 86 highly ranked facilities. These assessments will be completed in the summer of 2004. A database is being developed to capture the vulnerability assessment data that links with existing space, building, and law enforcement databases. VA is reviewing selected emergency preparedness planning documents to assess their relevance, currency and comprehensiveness; assessing the preparedness of VA personnel during and after a catastrophic event; and assessing the Department's ability to secure or reconstitute essential business records.

VA is conducting an evaluation of the Pension and Parents' Dependency and Indemnity Compensation (DIC) programs to assess the effectiveness and efficiency of the two means-tested benefit programs in VA. The pension program provides income support benefits for needy veterans with nonservice-connected disabilities and their spouses. The Parents' DIC program provides income support benefits for needy parents of veterans whose deaths were service-connected.

The Home Loan Guaranty program evaluation is on schedule for completion in the third quarter of 2004. Oncology and Severely Mentally Ill Program Evaluations have been initiated and are in the design phase.

Capital Asset Management

Asset Management

Streamlining business practices, optimizing performance, and encouraging implementation of innovative asset management initiatives are hallmarks of VA's approach to capital asset management. VA is committed to a comprehensive, corporate-level approach to capital asset management. This approach helps VA link asset decisions closely with its strategic goals, elevates awareness of assets, and employs performance management techniques to monitor asset performance on a regular basis. At the core of VA's capital asset business strategy is value management – striving to return value to VA's business and managing existing value for greater return.

VA is continuing its development of a Departmentwide capital asset management system (CAMS). The data system will provide for life-cycle portfolio management across the enterprise and integrated business programs. CAMS will capture, track, and evaluate capital assets and provide for measurement and accountability of VA's investments.

During 2003, VA developed and promulgated capital asset policies for Departmentwide capital asset management, energy conservation, and enhanced-use leasing. These policies ensure that the Department has consistent investment strategies and that all capital activities are accomplished in concert with the Department's strategic goals.

In 2003, VA focused on a systematic, agency-wide approach to energy conservation. In addition to being a good steward of the environment, VA will save money that can be used to improve the lives of our veterans. The Energy Conservation Program will promote efficiency in building design and operations, energy consumption, water conservation, and use of new advances in energy conservation technologies.

In May 2003, 18 VA medical centers were honored by the Environmental Protection Agency and the Department of Energy for their achievements in energy efficiency. Each facility received Energy Star awards for placing in the top 25 percent in energy performance among all hospitals in the United States. Their energy usage was calculated using an Internet-based program called Portfolio Manager. This program tracks energy usage continually and objectively, providing building administrators valuable information for managing energy use.

VA's enhanced-use leasing program continues to produce exciting results in support of VA's portfolio goals. The enhanced-use leasing authority authorizes VA to fund cost-effective alternatives to traditional means of acquiring and managing facility and capital holdings. It permits the long-term out-lease of underutilized VA property to non-VA entities for uses compatible with VA's mission in return for in-kind consideration such as facilities, services, and/or money. This program has significantly reduced costs to the Department and has provided corresponding benefits to veterans, employees, and the local community. Enhanced-use lease projects address a broad array of initiatives including mixed-use development projects, residential care and temporary lodging facilities, energy plants, elder care facilities, child development centers, and parking facilities.

In 2003, VA awarded four enhanced-use lease projects:

Enhanced-Use Lease Projects Awarded in 2003

VA Property	Project Type
Barbers Point, Hawaii	Transitional Housing
Hines, Illinois	Transitional Housing
Milwaukee, Wisconsin	VBA Regional Office
Somerville, New Jersey	Mixed-Use Development

Integrated Management of VA's Information Technology (IT) Portfolio

VA is modifying its guidelines on the IT management process, taking an integrated approach to managing IT projects that provides for their continuous identification, selection, control, and evaluation. The process

Milestone Review Status of Major IT Initiatives

Milestone 0 Review Project Initiation Request	Milestone 1 Review Prototype Development Approval	Milestone 2 Review System Development Approval	Milestone 3 Review System Deployment Approval	Milestone 4 Review Post-Implementation Review
VistA Lab	VA Learning Management System	Telecommunications Modernization Plan	Employee Express	Health Data Repository (HDR)
e-Commerce	e-Commerce	e-Travel	e-Travel	PAID
Contingency WAN Satellite Network	Loan Administration Redesign (LARD)	Capital Asset Management System (CAMS)	Enterprise Cyber Security Infrastructure Project (ECSIP)	Program Integrity and Data Management Corporate Database
VBA Budget Automated Information System	Patient Financial Services System (PFSS)	Patient Financial Services System (PFSS)		Insurance Systems Maintenance and Operations
IT Continuity of Operations (COOP)	Corporate Data Center Integration (CDCI)	Corporate Data Center Integration (CDCI)		C&P Maintenance and Operations
VA Smart ID (AAIP)	Registration and Eligibility / Contact Management			Loan Guaranty Maintenance and Operations
Center for Health Care Security	C&P Evaluation Redesign (CAPER)			Education Maintenance and Operations
	Authentication & Authorization Infrastructure Project (AAIP)			Vocational Rehabilitation and Education Maintenance and Operations
				Fee Basis
				Benefits Delivery Network (BDN)
				Health Administration Center (HAC)
				BIRLS/VADS

A product of the VA integrated management process is the annual preparation of VA's IT portfolio, which is based on the OMB Exhibit 300, Capital Asset Plan and Business Case (All Assets). VA has adopted the Exhibit 300 as the primary documentation vehicle for IT investments. The development of the IT Portfolio for 2004 resulted in 80 percent of VA's business cases being scored at a level that ensured the IT initiatives were not designated "At Risk" by OMB. This was a significant improvement over prior years and ensured that the majority of VA's IT portfolio was funded and not subject to redirection by OMB.

Making Greater Use of Performance-based Contracts

The intent of this management reform is to convert service contracts that are awarded and administered using traditional specifications into an acquisition process that utilizes performance-based service contracting (PBSC). While PBSC can result in an overall cost reduction, its primary use is to give the government flexibility in receiving quality services from the contractor. Another objective of PBSC is to allow the Government to focus on the outcome of the product or service and allow the contractor to be creative and innovative in performing services.

VA has made progress in terms of converting existing and new service contracts at both the field station and national contract levels into performance-based contracts. In addition, the Department provides ongoing continuing education on this subject to its contracting officers and allied acquisition professionals. This training has included both classroom and online courses.

VA will more fully monitor its level of success in converting to the performance-based contract approach through a new cyclical reporting mechanism in the General Services Administration's Federal Procurement Data System. Through this system, VA will be able to analyze the types of conversions, the dollars obligated, and the level of conversion to performance-based contracts.

Procurement Reform

VA spends more than $6 billion annually for pharmaceuticals, medical and surgical supplies, prosthetics, information technology, construction, and services. VA's acquisition system is vital, not only because of its magnitude, but because of its critical role in ensuring VA can deliver timely services to our Nation's veterans in an efficient and cost-effective manner.

To optimize the performance of VA's acquisition system, the Secretary of Veterans Affairs established a Procurement Reform Task Force in June 2001. Task force members were charged with reviewing VA's entire acquisition system and processes and recommending specific improvements to strengthen the system's performance and effectiveness.

To meet this challenge, the task force decided to focus its efforts on areas that offer substantial near-term savings and have high potential for sustainable improvements. In addition, the task force sought to address key VA-wide issues that impact the effectiveness of the acquisition system. Three areas were excluded from the scope of work: IT acquisition, and capital asset acquisition (these issues were being addressed separately), and pharmaceutical purchases (this area had improved significantly with considerable management attention). All other acquisitions fall within the scope of the review. The task force established the following major goals:

- Leverage purchasing power of VA
- Standardize commodities within VA
- Obtain and improve comprehensive VA procurement information
- Improve VA procurement organizational effectiveness, and
- Ensure a sufficient and talented VA acquisition workforce

Task force members consulted extensively with other government agencies and private-sector organizations, as well as with VA staff, to identify best practices and innovation opportunities. As described in the Procurement Reform Task Force Report, dated May 2002, the task force made 65 recommendations. Of these, 31 have been implemented and 34 are still in progress. One of the first recommendations implemented was the establishment of the VA Business Oversight Board; the board is measuring progress in implementing the goals. When implementation of the recommendations is completed, these goals will still be tracked to monitor progress in achieving the desired outcomes. During the upcoming fiscal year, many more of the recommendations will be implemented.

Assessment of Data Quality

Veterans Health Administration

The quality of VA data has continued to improve; it supports business planning and day-to-day decision-making activities. Each program office has initiated specific improvement actions. In addition, the Office of the Inspector General (OIG) has conducted audits to determine the accuracy of our data. We consider OIG reviews to be independent and objective. The following discussion describes in detail the actions each VA administration has taken to improve its data quality.

VHA has focused on data reliability, accuracy, and consistency for the past several years. The principles of data quality are integral to VHA's efforts to provide excellence in health care. In 2001, the Under Secretary for Health commissioned a high-level, cross-cutting task force on data quality and standardization whose membership includes the chief officer from VHA's Office of Quality and Performance, the Assistant Deputy Under Secretary for Health, and officials from the Chief Network Office and Office of Information. This task force has focused on strategic planning to provide consistent definitions of clinical and business data for more effective clinical and organizational decision support. The members seek collaboration with other parties including DoD, Indian Health Service, private sector health care providers, and standards organizations.

VHA's commitment to quality data was confirmed by the results of a recent OIG audit of the validity of data collection of the quality measures that VHA tracks – CDCI II and PI II. The report acknowledged a high degree of accuracy. There were no recommendations.

VHA has long been recognized as a leader in documenting credentials and privileges of VA health care professionals. In 2001, VHA implemented a new electronic data bank, VetPro, on health care professionals' credentialing, in partnership with the Department of Health and Human Services. VetPro promotes and demonstrates to other federal and private agencies the value of a secure, easily accessible, valid data bank of health professionals' credentials. VetPro improves the process of credentialing and privileging by establishing a secure, accessible, valid electronic database; ensuring appropriate credentials for clinical roles of practitioners; and allowing verification of practitioner track records.

The VHA Data Consortium addresses organizational issues and basic data quality assumptions. The consortium works collaboratively to improve information reliability and customer access for the purposes of quality measurement, planning, policy analyses, and financial management. The ongoing initiatives and strategies address data quality infrastructure, training and education, personnel, policy guidance, and data systems. The VHA data quality coordinator and data quality workgroups provide guidance on data quality policies and practices. Several initiatives support the integrity and data quality of coding including the following:

- Development of strategies and standard approaches to help field staff understand the data content and meaning of specific data elements in VHA databases;
- Development of coding resources for field facilities, to include negotiating the purchase of knowledge-based files/edits from Ingenix™ for use within the Veterans Health Information Systems and Technology Architecture (**VistA**);
- Complete revision of **VistA** software to accommodate the requirements of the Health Insurance Portability and Accountability Act for use of those code sets involving health care claims.

To support the need for guidance in medical coding, VHA established the Health Information Management (HIM) Coding Council, comprised of credentialed expert coders with support from VHA HIM Central Office staff to provide research and response to coding questions within 24 hours. The council also completed an update to the national coding handbook, which provides expert guidance to field facilities. Additional initiatives include the following:

- "*Close Encounters*" and "*Data Quality Highlights*" newsletters for field staff guidance;
- Ongoing, periodic training programs on such topics as national standard code set updates;
- Standardization of electronic encounter forms including documentation templates.

The Patient Financial Service System (PFSS) project is the pilot implementation of a commercial billing and accounts receivable system in VHA. This project is designed to incorporate business process improvements and commercial information systems that are proven in the private sector. The project will introduce commercial business practices and technology into VA through a VISN pilot project comprised of VA best practices and commercial best practices. The objectives of the pilot are to implement a commercial product and study the effects on collections, improvements to the business process, and effects on the information systems in a single test environment. Ultimately, the long-term strategy is to develop a scalable solution, which includes both a commercial solution and VA applications that can be implemented in all VHA Networks.

The VHA Office of Information is involved in several other key projects that are targeted to improve data quality and system reliance. These include VHA's Register Once project, which deploys an incremental solution to the *One VA* registration/eligibility initiative so that a veteran only has to provide necessary information to VHA once, and enables VAMCs to securely share administrative data.

VHA completed implementation of a national Master Patient Index (MPI). The MPI provides the ability to view clinical data from various VA medical facilities via the remote data view functionality within the Computerized Patient Record System. The MPI provides the mechanism for linking patient information from multiple clinical, administrative, and financial records across VHA health care facilities, enabling an enterprise-wide view of individual and aggregate patient information.

VHA is examining its current health information processing environment to plan how to best implement improvements over the next 5 years. As part of this process, VHA is assessing:

- What a high-performance automated health system needs to provide;
- What the ideal health and information system would look like;
- What the advantages and disadvantages of our current system are;
- How best to use a phased approach for moving from the current to the ideal environment.

Veterans Benefits Administration

VBA, in recent years, has sought to improve the information it relies on in all facets of its operations from claims processing to FTE hiring patterns. Whether these data are in legacy systems or a data warehouse environment, the output must be accurate and consistent in order to be effective. Managing the accuracy of these data necessitates an ongoing commitment. In 2003, VBA again invested resources in support of this commitment. By using data quality methods and strategies across all its business lines, VBA continues to show improvements in its data.

The Compensation & Pension (C&P) program has moved to a specialization approach in its work processes. VBA has found that these specialized work processes allow for greater workload control, development of expertise by the staff, more accurate and consistent directions, and more efficient and timely processing. These strategies and a significant reliance on information technology and employee development have improved our claims processing and the quality of data.

The Office of Performance Analysis and Integrity (PA&I) completed its first year of operations. The office now performs many of the data quality functions formerly carried out by other VBA components. Some of the work conducted by PA&I that contributed to the value and quality of data collection is discussed below.

In the performance analysis area, VBA analyzed its cycle time with the goal of reducing the time required for processing a claim. One conclusion offered by the study was to upgrade one of the management information tools used for making decisions.

PA&I also gathers and reviews performance data on a monthly basis. This information is then presented in report format as part of the Deputy Secretary's Monthly Performance Review where data generated within VBA as well as provided to VBA are discussed for accuracy and consistency. Decisions for subsequent corrections of problem areas are addressed at the highest managerial levels. Another ongoing analysis PA&I conducts involves a review of the number of days to receive service medical records from the National Personnel Records Center.

Data presented in reliable, timely, and accurate reports are generated and provided to VBA managers and stakeholders. Some of the report

modules PA&I brought online or enhanced this past year include:

- The Appraisal System. This system is currently used to track property appraisals for the Loan Guaranty program.
- The Inventory Management System (IMS). In addition to the data collected from the Benefits Delivery Network and Claims Automated Processing System, IMS now reflects information collected from the Modern Award Processing-Development system. The enhanced reports allow managers in the field and Central Office to more efficiently manage the workload.
- The Gulf War Veterans Information System (GWVIS). This system was enhanced to include VHA data on inpatient and outpatient visits from deployed Gulf War veterans. This represents an expansion of GWVIS, presenting a broad spectrum of statistics about Gulf War veterans.
- Ad hoc requests. These require data from single or multiple VBA source systems. Using established business rules (definitions of what the data represent), consistent, useful, timely, and accurate information reports are provided to requestors. VBA business lines, external stakeholders, and interested parties (such as the Congressional Budget Office, General Accounting Office, and veterans service organizations) regularly request information on various cohorts of veterans concerning their compensation and pension benefits usage.

Data quality is ensured through the development of integrity and internal controls. One approach is to explore data mining tools as an option to identify and deter potential fraud, waste, and abuse. Practical examples include identifying veterans with improper dependents, non-suspended accounts with multiple returned payments, and discrepant data between various systems. Data mining can be used to highlight questionable data and system failures or anomalies.

VBA began its Large Payment Verification Review in October 2001 and continued in 2003. Lists of C&P payments over $25,000 are provided to field stations for review and certification at the director level. As of August 2003, over 38,000 cases were reviewed leading to over $6.6 million in recoveries from erroneous payments. PA&I works closely with C&P Service to facilitate and track this function to enhance program integrity and fraud detection efforts.

PA&I, in cooperation with C&P Service, led efforts to identify and test various options to identify correct address information for veterans. With the wide use of electronic funds transfer, many beneficiary addresses had become out of date. A 3 month pilot demonstrated that deploying a nationwide contract for online address capability for all VBA field offices will effectively enhance accurate data in VBA beneficiary records.

PA&I is involved in the VBA Annual Statement of Written Assurance (SWA), which attests to the adequacy of its management controls. The 2003 process was enhanced by including a list of critical elements provided by VBA service and staff offices for field review and certification. SWA training is provided to field station management analysts to promote compliance with management and internal controls permitting only proper payment of benefits.

Since the mid 1990's, VBA has conducted customer satisfaction surveys for all its major business lines as a way to obtain direct feedback from the individuals receiving services from VBA. In 2003, information on the quality of service delivery was obtained from C&P claimants, persons receiving education benefits, homeowners with a VA loan, and veterans in (or having completed) the vocational rehabilitation program, as well as the insurance policyholders. These surveys produce statistics on the performance at the national, administrative, and regional office (RO) levels. The results of the surveys are posted on VBA's Intranet Web site. PA&I conducts special analyses showing key drivers of customer satisfaction and comparisons of performance among ROs to help focus on service improvements.

National Cemetery Administration

Experience and recent historical data show that about 80 percent of those interred in national cemeteries resided within 75 miles of the cemetery at the time of death. From this experience, NCA considers eligible veterans to have reasonable access if a burial option (whether for casketed or cremated remains) is available within 75 miles of the veteran's place of residence. NCA determines the percent of veterans served by existing national and state veterans cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. Arlington National Cemetery, operated by the Department of the Army, and Andrew Johnson National Cemetery and Andersonville National Cemetery, operated by the Department of the Interior, are included in this analysis. In 2000,

VA's Office of the Actuary released VetPop2000, the authoritative VA estimate and projection of the number and characteristics of veterans. From 2000 through 2002, actual performance was based on the VetPop2000 model using updated 1990 census data. Beginning in 2003, actual performance is based on a revised VetPop2000 model using 2000 census data. Projected openings of new national or state veterans cemeteries and changes in the service delivery status of existing cemeteries are also considered in determining the veteran population served. (Multiple counts of the same veteran population are avoided in cases of service-area overlap.)

NCA collects data monthly through field station input to the Burial Operations Support System on the timeliness of marking graves. After reviewing the data for general conformance with previous report periods, headquarters staff validates any irregularities through contact with the reporting station.

Since 2001, NCA has used an annual nationwide mail survey to measure the quality of service provided by national cemeteries as well as their appearance. The survey provides statistically valid performance information at the national and Memorial Service Network levels and at the cemetery level for cemeteries having at least 400 interments per year. The survey collects data annually from family members and funeral directors who recently received services from a national cemetery. To ensure sensitivity to the grieving process, NCA allows a minimum of 3 months after an interment before including a respondent in the sample population. VA headquarters staff oversees the data collection process and provides an annual report at the national level.

In 2003, NCA established standards and measures for key operational processes including interments, grounds maintenance, and headstones and markers. In conjunction with these standards, NCA has initiated an Organizational Assessment and Improvement Program to identify and prioritize continuous improvement opportunities, and to enhance program accountability by providing managers and staff at all levels with one NCA "scorecard." In 2004, assessment teams will begin to conduct site visits to all national cemeteries. All national cemeteries will be visited on a rotating basis to validate performance reporting.

Office of Inspector General (OIG) Performance Audits

The OIG made an assessment of the Department's data quality in the Major Management Challenges section of this report. This information is shown on pages 143 to 171.

Veterans Benefits Administration
Quality Assurance Program (Millennium Act)

Summary of Findings and Trends –
Compensation and Pension

VBA maintains a quality assurance program independent of the field stations responsible for processing claims and delivering benefits. The following information about our programs including compensation and pension, education, vocational rehabilitation and employment, housing, and insurance is provided in accordance with title 38, section 7734.

Cases Reviewed and Employees Assigned by Program

	Cases Reviewed	Employees Assigned
Compensation and Pension	15,256	19.0
Education	1,573	1.0
Vocational Rehabilitation and Employment	3,712	8.0
Housing	8,969	3.0
Insurance	10,790	4.0

Accuracy reviews are accomplished through an outcome-based system, Statistical Technical Accuracy Review (STAR). STAR reports are based on the month that a case was completed, not when it was reviewed. Cases are requested to be submitted for review no later than the end of the following month.

Reviews of rating-related work (disability or death determinations) and authorization-related (generally not requiring a disability or death determination) products have a specific focus:

- The benefit entitlement review ensures all issues are addressed, VCAA-compliant claim assistance was provided, and the resulting decision was correct, including effective dates.
- The decision documentation/notification review includes adequate and correct decision documentation and proper decision notification.

The following are results for rating and authorization reviews for the 12 month period ending July 31, 2003:

	RATING		AUTHORIZATION	
	Reviewed	Accuracy	Reviewed	Accuracy
Benefit Entitlement	7,218	85%	5,266	87%
Decision Documentation & Notification	7,218	90%	5,366	85%

The third type of work product-related review pertains to fiduciary work. The reviews include all review categories and are presented in a single overall report. The fiduciary review in 2003 was based on 2,772 cases through June 2003, with an accuracy rate of 77 percent. Most of the errors were found in the area of protection with the small number of benefit entitlement issues. "Protection" includes oversight of the fiduciary/beneficiary arrangement, analysis of accountings, adequacy of protective measures for the residual estate, and any measures taken to ensure that VA funds are used for the welfare and needs of the beneficiary and recognized dependents. If any of the components of entitlement or protection are in error, the entire case is in error.

Actions Taken to Improve Quality – Compensation and Pension

To ensure accountability for corrective actions, regional offices are now required to certify, on a quarterly basis, the corrective actions taken for errors documented on the national STAR. Reports on the corrective actions are submitted to VBA Headquarters, where they are reviewed to determine the adequacy of the corrective actions. Reliability of the reports will be monitored during the cyclical management site visits. Beginning in 2004, formal quality improvement plans are being required from all regional offices with rating benefit entitlement accuracy below 80 percent.

VBA has implemented a uniform national individual performance review plan with standardized review categories, sample size, and performance standards.

Training using a variety of mediums including satellite broadcasts, training letters, and computer-assisted training, will remain a priority. Particular effort is made to ensure high-quality centralized training for new veteran service representatives and rating veteran service representatives.

VBA developed a supplemental review to monitor the quality of written communication for clarity and conciseness (as opposed to technical accuracy measured by the STAR). Reviews will be initiated in early 2004.

Feedback on quality is provided to ROs for training purposes using a philosophy of consistency in its review and a policy of assigning specific field stations to a dedicated STAR reviewer. Common STAR error findings are used for discussions and training during scheduled site visits and as agenda items for quarterly fiduciary program teleconference calls.

VBA is continuing to work closely with VHA to improve the quality of examination requests and reports. Efforts include measuring request and report accuracy, developing training materials such as videotapes and satellite broadcasts, and sponsoring quality improvement training sessions for key medical center and regional office staff.

VBA has also initiated a program of out-basing rating veteran service representatives (RVSRs) at selected VA medical centers to facilitate the examination process. Currently, there are 20 participating locations. These RVSRs are spending a part of their workday reviewing the examinations for quality as a part of a national review, which is the official performance measure for quality in this area. The STAR staff continues to conduct the majority of examination report quality reviews, but the out-based RVSRs' participation has significantly expanded review capacity.

Summary of Findings and Trends – Education

Of the 1,573 cases reviewed, there were 86 decisions with payment errors and 390 with service errors (note: some cases had more than 1 service error). Eligibility and entitlement determinations constituted approximately 3 percent of the service errors. Development errors and due process notification errors were 9 and 28 percent, respectively, of the service errors. From 2002 to 2003, payment accuracy improved slightly from 92.6 percent to 93.5 percent.

Actions Taken to Improve Quality – Education

As in previous years, the 2003 quarterly quality review results identified error trends and causes; these become topics for regional processing offices in conducting refresher training. Annual appraisal and assistance visit reports provided recommendations for improving specific quality areas. Both payment accuracy and service accuracy improved slightly. As predicted in 2002, overall quality continues to improve as the Education adjudicators hired in 2001 gain more experience.

Although the service area of notification improved in 2003, it remains the most problematic area. The checklist used for quality assurance reviews was modified in 2002 to distinguish between errors in due process notices (for disallowance, reduction, or termination of benefits) and other notification errors. This allowed Education Service to determine that most notification errors were not due process errors but were in other less critical areas of internal and external notification. Overall, the rate of both due process and other notification errors decreased in 2003, indicating that periodic refresher training in these areas, which began in 2002 and continued in 2003, has been effective. Training will continue into 2004 until the quality reviews show that the need for refresher training is no longer needed.

Education Service is continuing its project to develop standardized training and certification for employees. The first phase, covering claims processing tasks, was completed in November 2002. The project is expected to have a significant impact in raising quality scores and maintaining them at high levels when the project is fully implemented over the next few years.

Summary of Findings and Trends – Vocational Rehabilitation and Employment

In 2003, VR&E conducted quality reviews on a total of 3,712 cases. The reviews were conducted over a 12 month period. The goal was to review at least 64 cases from each station. Each station was reviewed twice during the year.

Following are the results from the balanced scorecards as of August 31, 2003:

- Accuracy of entitlement determinations was 92 percent
- Accuracy of evaluation planning and service delivery was 83 percent
- Accuracy of fiscal decisions was 85 percent
- Accuracy of outcome decisions was 81 percent

Actions Taken to Improve Quality – Vocational Rehabilitation and Employment

Following are recommendations that were implemented in 2003:

- New employees were selected for the quality assurance (QA) team reviewers. The new QA team was designed to ensure that consistency in the scoring of the cases is maintained.
- An out-briefing with the VR&E staff is held after each station's review to discuss significant findings and provide training to the field.
- A QA Review Board has been established for stations that wish to request reconsideration of decisions during the QA review.
- In-service training is continually provided to the team. Additionally, satellite broadcasts are scheduled and held for VR&E staff training in the regional offices.

The local QA reviews were implemented in all regional offices during the first quarter of 2003. Each regional office conducts a review of 10 percent of their caseload each year. QA reports were developed and will be available on the Web site by the first quarter of 2004.

Summary of Findings and Trends – Housing

The housing program reviewed 8,969 cases under its statistical quality control program in 2003. Approximately 735 defects were found. This translates to a defect rate of 2.38 percent, with the current national accuracy index being 97.62 percent. This is an improvement of a .79 percentage point above 2002.

The housing quality assurance program includes elements beyond the review of cases. The Lender Monitoring Unit performed 41 on-site audits and 28 in-house audits of lenders participating in VA's home loan program.

The Portfolio Loan Oversight Unit (PLOU) conducts two types of reviews: in-house and on-site. In-house reviews are conducted on a continuous basis; approximately 52,800 reviews were completed in 2003. PLOU reviewed billing invoices and completed performance reviews from the portfolio services contractor, Countrywide Home Loans (CHL), in addition to solving problems associated with portfolio loans and properties. These reviews covered 34 topics.

During 2003, two new quality schedules were added to reflect recent changes in the way the loan guaranty program is administered. These include Schedule 112-Field Reviews, and Schedule 231-Certificates of Eligibility Processed by an Eligibility Center.

Associated with these changes, Loan Guaranty staff conducted 10 on-site reviews of regional loan centers and eligibility centers identifying 172 strengths, 100 weaknesses, and 50 best practices, and mandating 32 corrective actions. Other on-site reviews were made to CHL facilities. Those included:

- Foreclosure, bankruptcy, and loss mitigation issues were covered at a site review of CHL's Plano, Texas offices in January 2003;
- Customer service, delinquent loan servicing, taxes, insurance, etc., were covered by site reviews in April and August 2003 at CHL's Simi Valley, California offices;
- Loan Management/PLOU also conducted 4,610 document reviews during on-site visits to CHL's Simi Valley office in FY 2003.

On-site performance reviews are conducted in cooperation with VA's oversight review team, whose

members include: Loan Guaranty Service (Loan Management); the Indianapolis RO-based branch of Loan Management (PLOU); the Office of Inspector General (Financial Audit Division); the Office of Financial Policy (Financial & Systems Quality Assurance Service); and the Office of Resource Management (Finance and Administrative Services).

In 2003, the reviews by Loan Management/PLOU recovered excessive contractor charges by an estimated $28,000. Additional amounts identified by PLOU related to real estate tax penalties exceeded $150,000 as of the end of 2003. PLOU also discovered 228 real estate owned (REO) records in CHL's system for properties VA had previously sold or returned custody to the loan-servicing provider. This will avoid future annual tax payments of approximately $114,000. Lastly, PLOU has identified over $2.4 million in unwarranted costs resulting from delays or errors by the prior servicing contractor. Actions will be initiated to recover these monies.

VA audits of lenders during 2003 amounted to approximately $2.5 million in liability avoidance. The Lender Monitoring Unit also recovered approximately $530,000 in overcharges. These overcharges were refunded directly to veterans.

Actions Taken to Improve Quality – Housing

The Loan Guaranty Service in Central Office disseminates the results of statistical quality control (SQC) reviews to field loan guaranty divisions on a monthly basis. Loan Guaranty conducts and releases a trend report to field personnel. This report identifies negative trends and action items found during 2003 surveys. It is published to assist field personnel in identifying frequent problems facing loan guaranty management. Additionally, summaries of best practices employed by individual field stations are distributed quarterly to all field stations with loan guaranty activity.

National training is provided to enhance the quality of service provided to veterans and to increase lender compliance with VA policies. Lenders who significantly failed to comply with policies were either required to enter into indemnification agreements with VA or immediately repay the agency for its losses.

Summary of Findings and Trends – Insurance

The insurance program's principal quality assurance tool is the SQC review. It assesses the ongoing quality and timeliness of work products by reviewing a random sample of completed or pending work products. These work products are generally grouped into two broad categories based on the operating divisions in which they are performed – Policyholders or Insurance Claims Divisions.

The Policyholders Services Division, whose work products deal with the maintenance of active insurance policies, had an overall accuracy rate of 99.2 percent for 2003. Work products included correspondence, applications, disbursements, record maintenance, refunds, and telephone inquiries. The Insurance Claims Division is responsible for the payment of death and disability awards, the issuance of new coverage, and the processing of beneficiary designations. The accuracy rate for insurance claims work products was 99.4 percent. Work products included death claims, awards maintenance, beneficiary and option changes, disability claims, and medical applications. In total, 99.1 percent of all 2003 insurance work products were accurate.

Regarding timeliness, 97.2 percent of the work products measured in the Policyholders Services Division were within accepted timeliness standards, and 97.4 percent completed in the Insurance Claims Division were considered timely as well. In total, 97.6 percent of all 2003 insurance work products were timely.

The insurance quality assurance program also includes internal control reviews and individual employee performance reviews. The internal control staff reviews 100 percent of all employee-prepared disbursements and also reviews insurance operations for fraud through a variety of reports. Reports are generated daily and identify death claims cases based on specific criteria that indicate possible fraud. Primary end products processed by employees in the operating divisions are evaluated, based on the elements identified in the Individual Employee Performance Requirements. As a result of these controls, insurance disbursements have been 99.5 percent accurate.

Actions Taken to Improve Quality – Insurance

The Insurance Service utilizes SQC and employee performance review programs to measure quality and timeliness on an overall and individual basis. Both programs are valuable as training tools because they identify trends and problem areas. When a reviewer finds an error or discrepancy during a review, he or she prepares an exception sheet that clearly describes how the item was processed incorrectly. The noted item is then reviewed with the person who incorrectly processed the form.

SQC reviews are based on random samples of key work products and evaluate how well these work products are processed in terms of both quality and timeliness. Exceptions are brought to the attention of the insurance operations division chiefs, unit supervisors, and employees who worked the case.

VBA's Insurance Service evaluates the SQC programs periodically to determine if they are functioning as intended. Currently, we are examining error and discrepancy classifications and sample sizes.

Individual performance reviews are conducted each month. The performance levels – critical and non-critical elements – are identified in the Individual Employee Performance Requirements. These reviews are based on a random sampling of the primary end products turned out by employees in the operating divisions. Those items found to have errors are returned to the employee for correction. At the end of the month, supervisors inform employees of their error rates and timeliness percentages as compared to acceptable standards.

The insurance program has implemented the first eight of more than a dozen job aids under the initiative called Skills, Knowledge and Insurance Practices and Procedures Embedded in Systems (SKIPPES). This program captures 'best practices' for processing various work items and makes them available on each employee's desktop. It is expected that the SKIPPES job aids will further reduce error rates and improve timeliness.

Standards of Independence

Each VBA business line assigns staff who are responsible for quality assurance. These employees do not process claims or deliver benefits, with the exception of the VR&E Service. VR&E's quality reviews are performed by teams consisting of three representatives from headquarters along with rotating VR&E officers from the field.

The General Accounting Office (GAO) reviewed the C&P Service's plan to increase staffing and review sufficient samples to independently assess RO claims processing accuracy. A report was issued titled, "*Veterans' Benefits: Quality Assurance for Disability Claims Processing*" (GAO-01-930R VBA Disability Claims Processing) in August 2001. GAO concluded, "VBA's planned modification would bring the STAR system into compliance with our recommendation regarding standards on segregation of duties and organizational independence."

VBA conducts rigorous reviews under published guidelines using detailed schedules in program manuals. The quality assurance programs are subject to external review by oversight agencies such as the VA Office of Inspector General and GAO.

Performance Measures By Organization And Program

In addition to VA's key performance goals, there are other supporting performance measures, identified and discussed in the following tables, by which VA evaluates its success. The tables show available trend data for a 5 year period and associated target levels of performance grouped by organization and program, including the total amount of resources (FTE and obligations) for each program. Within each group, the performance measures are structured as follows:

- *Target was met or exceeded (green);*
- *Target was not met, but the deviation did not significantly affect goal achievement (yellow);*
- *Target was not met, and the difference significantly affected goal achievement (red).*

For each measure that resulted in non-achievement of a performance target (highlighted in red), we provide a brief explanation as to why there was a significant deviation between the actual and planned performance level, and we identify the steps being taken to ensure goal achievement in the future. A notation has been made to indicate if final data were not available at the time of publication. Available final data will be reported in the FY 2005 Congressional Budget and in the FY 2004 Performance and Accountability Report.

VA uses the balanced measures concept to monitor program and organizational performance. Rather than focusing attention solely on one or two types of performance measures, we examine and regularly monitor several different types of measures to provide a more comprehensive and balanced view of how well we are performing.

While each of our major program elements uses a balanced family of measures, the specific measures vary somewhat from organization to organization, and thus, from program to program. The performance measures for each organization have been tailored to fit the strategic goals of the programs for which each organization is responsible.

Taken together, the measures in the following tables and the Department's key measures demonstrate the balanced view of performance VA uses in assessing how well we are doing in meeting our strategic goals, objectives, and performance targets.

The GPRA program activity structure is somewhat different from the program activity structure shown in the program and financing (P&F) schedules of the President's Budget. However, all of the P&F schedules (budget accounts) have been aligned with one or more of our programs to ensure all VA program activities are covered. The program costs (obligations) represent the estimated total resources available for each of the programs, regardless of which organizational element has operational control of the resources. The performance measures and associated data for each major program apply to the entire group of schedules listed for that program.

Veterans Health Administration Performance Measures

Medical Care

P&F ID Codes: 36-0160-0-1-703; 36-5287-0-1-703; 36-0152-0-1-703; 36-4014-0-3-705; 36-4048-0-3-703; 36-4138-0-3-703; 36-8180-0-7-705; 36-0110-0-1-703; 36-0111-0-1-703; 36-0181-0-1-703; 36-4538-0-3-703; 36-4018-0-3-705; 36-4537-0-4-705; 36-4032-0-3-703; 36-5358-0-1-703; 36-4013-0-3-703

Resources	**FY 1999**	**FY 2000**	**FY 2001**	**FY 2002**	**FY 2003 Actual**	**FY 2003 Plan**
FTE	186,595	183,396	186,832	184,209	**186,657**	186,782
Medical care costs ($ in millions)	$18,762	$20,318	$22,551	$24,368	**$27,670**	$27,467
Performance Measures						
	Goal Achieved					
Percent of all patients evaluated for the risk factors for Hepatitis C (through June)	N/A	N/A	51%	85%	**95% ***	80%
Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening (through June)	N/A	N/A	48%	62%	**84% ***	82%
Percent of patients with hepatitis C who have annual assessment of liver function (through June)	N/A	N/A	N/A	95%	**96% ***	92%
Percent of pharmacy orders entered into CPRS by the prescribing clinician (through June)	N/A	N/A	74%	91%	**92% ***	86%
Percent cumulative reduction in excess space as a result of CARES.	N/A	N/A	N/A	23%	**33%**	30%
Percent of clinical software patches installed on time: CPRS	N/A	N/A	67%	70%	**96%**	70%
BCMA	N/A	N/A	82%	85%	**94%**	85%
Imaging	N/A	N/A	57%	60%	**88%**	60%
Increase 3rd Party collections ($ millions)	$437	$397	$540	$760	**$804**	$760
Cost/patient (est. actual)	$4,645	$4,571	$4,336	$4,095	**$4,139 ***	$4,190
Acute Bed Days of Care (BDOC)/1000 (est. actual)	1,136	1,002	895	900	**1,000 ***	1,000
Outpatient visits/1000 - subdivided by:						
Med/Surg (est. actual)	2.9	2.7	2.4	2.4	**2.4 ***	2.4
Mental Health (est. actual)	8.9	8.4	8.1	8.1	**8.1 ***	8.1
Balanced Scorecard: Quality - Access - Satisfaction-Cost	88%	90%	98%	101%	**118%**	100%
Quality-Access-Satisfaction / Cost VALUE Index	5.12	5.36	6.31	6.70	**7.04**	6.55
Average waiting time for patients seeking a new specialty clinic appointment (in days) (through August)	N/A	N/A	N/A	Baseline	**45 ***	142
Percent of primary care clinic appointments scheduled within 30 days of desired date (through August)	N/A	N/A	87%	89%	**93% ***	87%
Percent of specialist clinic appointments scheduled within 30 days of desired date (through August)	N/A	N/A	84%	86%	**90% ***	80%
Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities (through March)	N/A	N/A	63%	65%	**67% ***	63%

*These are preliminary data; final data will be published in the FY 2005 Congressional Budget and/or the FY 2004 Performance and Accountability Report.

Veterans Health Administration Performance Measures

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
Average waiting time for next available appointment in primary care clinics (in days) (through August)	N/A	N/A	37.5	37	**25 ***	35
Waiting time for new primary care appointments, percent within 30 days (through August)	N/A	N/A	N/A	Baseline	**76% ***	23%
Waiting time for new specialty care appointments, percent within 30 days (through August)	N/A	N/A	N/A	Baseline	**67% ***	44%
Common Measures						
Quality - The percentage of diabetic patients taking the HbA1c blood test in the past year (through June)	N/A	N/A	N/A	93%	**94% ***	93%
	Goal Not Achieved -- Minimal Difference					
Increase 1st Party collections ($ in millions) (est. actual)	$138	$176	$231	$486	**$685**	$815
Common Measures						
Cost - Average cost per unique patient (total federal and other obligations) (est. actual)	N/A	N/A	N/A	$4,928	**$5,221 ***	$5,149
Efficiency - Annual number of outpatient visits per medical worker (est. actual)	N/A	N/A	N/A	2,719	**2,767 ***	2,809

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Special Emphasis Programs	**Goal Achieved**					
Proportion of discharges from SCI Center bed sections to non-institutional settings	93%	97%	98%	97%	**100%**	95%
Percent of veterans using Vet Centers who report being satisfied with services, and responding "yes," they would recommend the Vet Center to other veterans	100%	100%	99%	99.7%	**99.8%**	95%

Medical Education	**Goal Achieved**					
Medical residents' and other trainees' scores on a VHA survey assessing their clinical training experiences	N/A	N/A	84	83	**83**	82

Measures Under Development						
Chronic Disease Care Index II (Special Populations)	N/A	N/A	N/A	N/A	N/A	Under Development
Prevention Index II (Special Populations)	N/A	N/A	N/A	N/A	N/A	Under Development

Gathering baseline data for FY 2004

Medical Research P&F ID Codes: 36-0160-0-1-703; 36-0161-0-1-703; 36-4026-0-3-703

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	2,974	3,014	3,019	6,470	**6,665**	6,601
Research costs ($ in millions)	$779	$830	$877	$964	**$1,005**	$1,020

Performance Measure

This program had no supporting measures.

*These are preliminary data; final data will be published in the FY 2005 Congressional Budget and/or the FY 2004 Performance and Accountability Report.

Veterans Benefits Administration Performance Measures

Compensation

P&F ID Codes: 36-0102-0-1-701; 36-0200-0-1-701; 36-0137-0-1-702; 36-0151-0-1-705; 36-0110-0-1-703; 36-0111-0-1-703

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	6,841	7,123	8,035	6,985	**7,051**	6,834
Benefits costs ($ in millions)	$21,129	$22,070	$23,293	$22,493	**$24,832**	$25,229
Administrative costs ($ in millions)	$549	$586	$706	$603	**$634**	$621

Pension

P&F ID Codes: 36-0154-0-1-701: 36-0102-0-1-701; 36-0151-0-1-705; 36-0110-0-1-703; 36-0111-0-1-703

Resources

FTE	N/A	N/A	N/A	1,791	**1,771**	1,752
Benefits cost ($ in millions)	N/A	N/A	N/A	$3,168	**$3,217**	$3,291
Administrative cost ($ in millions)	N/A	N/A	N/A	$155	**$150**	$156

Performance Measures

	Goal Achieved					
National accuracy rate (authorization work) (through July)	60%	51%	65%	80%	**87%***	82%
Telephone activities - blocked call rate	27%	3%	3%	7%	**3%**	4%
	Goal Not Achieved - - Minimal Difference					
Overall satisfaction (est. actual)	57%	56%	56%	58%	**58%***	67%
National accuracy rate (fiduciary work) (through June)	53%	61%	67%	82%	**77%***	85%
Telephone activities - abandoned call rate (through August)	8%	6%	6%	9%	**9%***	4%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved -- Significant Difference					
Non-rating actions - average days to process	44	50	55	60	**59**	43

In 2003, our work efforts were focused on reducing the claims backlog. Because the majority of our backlog was in the rating related actions, less time was spent focusing on the non-rating actions. With a slight improvement over FY 2002, VBA anticipates the 2004 target will be achieved.

Non-rating actions - average days pending	94	84	117	96	**108**	66

In 2003, our work efforts were focused on reducing the claims backlog. Because the majority of our backlog was in the rating related actions, less time was spent focusing on the non-rating actions. VBA anticipates the 2004 target will be achieved.

* These are preliminary data; final data will be published in the FY 2005 Congressional Budget and/or the FY 2004 Performance and Accountability Report.

Veterans Benefits Administration Performance Measures

The indicators below are the component end-products for the measure on average days to complete rating-related actions. We do not establish separate performance goals for these indicators. For a detailed discussion of rating-related actions timeliness, see the narrative on pages 45-46.

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Claims Completed in FY 2003
Average days to process rating-related actions	166	173	181	223	**182**	**827,194**
Initial disability compensation	205	212	219	255	**207**	**189,581**
Initial death compensation/DIC	111	122	133	172	**153**	**32,346**
Reopened compensation	182	189	197	241	**193**	**493,074**
Initial disability pension	112	115	130	122	**93**	**36,129**
Reopened pension	113	111	126	127	**101**	**59,135**
Reviews, future exams	104	108	119	127	**95**	**9,595**
Reviews, hospital	73	78	91	74	**54**	**7,334**

Education

P&F ID Codes: 36-0137-0-1-702; 36-0200-0-1-701; 36-8133-0-7-702; 36-2473-0-0-702; 36-0140-0-3-702; 36-4259-0-3-702 (Off Budget); 36-0151-0-1-705; 36-0111-0-1-703; 36-0110-0-1-703; 36-1118-0-3-702

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	849	781	852	864	**952**	952
Benefits costs ($ in millions)	$1,193	$1,181	$1,371	$1,691	**$2,099**	$2,232
Administrative costs ($ in millions)	$70	$66	$64	$75	**$85**	$100

Performance Measures

	Goal Achieved					
Compliance survey completion rate	98%	94%	92%	93%	**90%**	90%
Customer satisfaction-high ratings (Education) (est. actual)	79%	82%	86%	87%	**87% ***	86.0%
Telephone Activities - Abandoned call rate (Education) (through August)	N/A	17%	13%	11%	**7% ***	11.0%
Telephone Activities - Blocked call rate (Education)	36%	39%	45%	26%	**13%**	20%
	Goal Not Achieved - - Minimal Difference					
Montgomery GI Bill usage rate (DoD data available March 2004)	56%	57%	58%	56%	**56% ***	59%
Payment accuracy rate %	94%	96%	92%	93%	**94%**	95%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

* These are preliminary data; final data will be published in the FY 2005 Congressional Budget and/or the FY 2004 Performance and Accountability Report.

Veterans Benefits Administration Performance Measures

Vocational Rehabilitation and Employment

P&F ID Codes: 36-0137-0-1-702; 36-0140-0-3-702; 36-4259-0-3-702 (Off Budget); 36-1114-0-3-702; 36-0151-0-1-705; 36-0110-0-1-703; 36-0111-0-1-703

Resources

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	972	940	1,061	1,057	**1,239**	1,205
Benefits costs ($ in millions)	$412	$439	$427	$487	**$524**	$525
Administrative costs ($ in millions)	$72	$81	$109	$119	**$141**	$133

Performance Measures

	Goal Achieved					
Accuracy of decisions (services)	87%	85%	79%	81%	**92%**	90%
	Goal Not Achieved - - Minimal Difference					
Speed of entitlement decisions in average days	88	75	62	65	**63**	60
Customer satisfaction (Survey) (est. actual)	76.0%	74%	76%	77%	**77%***	81%
Accuracy of program outcome	N/A	N/A	N/A	81%	**81%**	90%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Measures Under Development

Common Measures						
Percent of participants employed first quarter after program exit	N/A	N/A	N/A	N/A	TBD	TBD
Percent of participants still employed three quarters after program exit	N/A	N/A	N/A	N/A	TBD	TBD
Percent change in earnings from pre-application to post-program employment	N/A	N/A	N/A	N/A	TBD	TBD
Average cost of placing participant in employment	N/A	N/A	N/A	N/A	TBD	TBD

These are new measures; targets and tracking of performance will be established in FY 2004.

Housing

P&F ID Codes: 36-0137-0-1-702; 36-1119-0-1-704; 36-1120-0-1-704; 36-0128-0-1-704; 36-4127-0-3-704 (Off Budget); 36-4129-0-3-704 (Off Budget); 36-4130-0-3-704 (Off Budget); 36-4124-0-3-704 (Off Budget); 36-4025-0-3-704; 36-0151-0-1-705; 36-0111-0-1-703; 36-0110-0-1-703; 36-4258-0-3-704 (Off Budget)

Resources

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	2,108	2,057	1,759	1,718	**1,519**	1,519
Benefits costs ($ in millions)	$1,811	$1,866	$540	$873	**$827**	$1,195
Administrative costs ($ in millions)	$160	$157	$162	$168	**$169**	$170

Performance Measures

	Goal Achieved					
Statistical quality index	N/A	94%	96%	97%	**97%**	97%

* These are preliminary data; final data will be published in the FY 2005 Congressional Budget and/or the FY 2004 Performance and Accountability Report.

Veterans Benefits Administration Performance Measures

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
	Goal Not Achieved - - Minimal Difference					
Veterans satisfaction (est. actual)	93%	93%	93%	93%	**94%***	95%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Insurance

P&F ID Codes: 36-0120-0-1-701; 36-4012-0-3-701; 36-4010-0-3-701; 36-4009-0-3-701; 36-8132-0-7-701; 36-8150-0-7-701; 36-8455-0-8-701; 36-0151-0-1-705; 36-0111-0-1-703; 36-0110-0-1-703

Resources

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	548	525	507	479	**494**	519
Benefits costs ($ in millions)	$2,559	$2,458	$2,534	$2,709	**$2,663**	$2,709
Administrative costs ($ in millions)	$40	$40	$41	$40	**$40**	$43

Performance Measures

	Goal Achieved					
High customer ratings (Insurance)	96%	96%	96%	95%	**95%**	95%
Percentage of blocked calls (Insurance)	6%	4%	3%	1%	**0%**	3%
Average hold time in seconds (Insurance)	20	20	17	18	**17**	20
Favorable IG audit opinion (Insurance)	Y	Y	Y	Y	**Y**	Y
	Goal Not Achieved - - Minimal Difference					
Low customer ratings (Insurance) %	1%	2%	2%	3%	**3%**	2%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

* These are preliminary data; final data will be published in the FY 2005 Congressional Budget and/or the FY 2004 Performance and Accountability Report.

National Cemetery Administration Performance Measures

Burial

P&F ID Code: 36-0102-0-1-701; 36-0129-0-1-705; 36-8129-0-7-705; 36-0183-0-1-705; 36-0110-0-1-703; 36-0111-0-1-703; 36-0151-0-1-705

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	1,357	1,399	1,385	1,633	**1,689**	1,694
Benefits costs ($ in millions)	$106	$109	$111	$134	**$132**	$157
Administrative costs ($ in millions):						
Operating costs	$92	$103	$116	$137	**$142**	$144
State cemetery grants	$5	$19	$24	$41	**$26**	$32
Capital construction	$21	$30	$33	$61	**$36**	$94

Performance Measures

	Goal Achieved					
Cumulative number of kiosks installed at national and state veterans cemeteries	14	24	33	42	**50**	48
Percent of monuments ordered online by other federal and state veterans cemeteries using AMAS-R	65%	87%	89%	89%	**90%**	90%
Percent of individual headstone and marker orders transmitted electronically to contractors	88%	89%	92%	92%	**95%**	93%
Percent of Presidential Memorial Certificates that are accurately inscribed	98%	98%	98%	98%	**99%**	98%
Percent of headstones and markers that are undamaged and correctly inscribed	95%	97%	97%	96%	**97%**	97%
Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence	56.7%	67.5%	66.0%	66.6%	**66.6%**	66.6%
Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence	10.3%	5.1%	6.6%	7.3%	**8.6%**	7.8%

	Goal Not Achieved - - Minimal Difference					
Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours	N/A	N/A	75%	73%	**73%**	78%
Percent of respondents who would recommend the national cemetery to veterans' families during their time of need	N/A	N/A	97%	98%	**97%**	98%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Board of Veterans' Appeals Performance Measures

P&F ID Code: 36-0151-0-1-705

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	478	468	455	448	**455**	451
Administrative costs ($ in millions)	$40	$41	$44	$47	**$47**	$49

Performance Measures

	Goal Achieved					
BVA Cycle Time	140	172	182	86	**135**	250
Appeals decided per FTE	78.2	72.7	69.3	38.4	**69.6**	55
Cost per case (BVA)	$1,062	$1,219	$1,401	$2,702	**$1,493**	$2,081
	Goal Not Achieved -- Minimal Difference					
Deficiency-free decision rate	84%	86%	87%	88%	**89%**	92%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved - - Significant Difference					
Appeals resolution time (days) (Joint measure C&P and BVA)	745	682	595	731	**633**	590

While this Departmental goal was not met, the appeals resolution time continues to decrease. This goal was set at a time when the remand rate was greatly reduced and expected to continue to decline. As a result of a Federal Circuit Court's 2003 decision, this all changed. The Secretary has created a special unit to handle remands and it is expected that this will result in decreased appeals resolution time.

Departmental Management Performance Measures

P&F ID Codes: 36-0151-0-1-705; 36-4539-0-4-705; 36-0110-0-1-703; 36-0111-0-1-703

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	2,483	2,564	2,674	2,825	**2,670**	2,770
Administrative costs ($ in millions)	$357	$416	$449	$515	**$616**	$550

Performance Measures

	Goal Achieved					
Percent of employees who are aware of ADR as an option to address workplace disputes	65%	70%	75%	80%	**85%**	70%
Number of audit qualifications identified in the auditor's opinion on VA's Consolidated Financial Statements	0	0	0	0	**0**	0
Percent increase of EDI usage over base year of 1997	48%	86%	178%	235%	**320%**	240%
Maintain FY 2004 IT Budget at the same level as the rebaselined FY 2003 budget plus inflation	N/A	N/A	N/A	N/A	**100%**	100%
Decrease IT maintenance spending by 5% and increase modernization spending by 5%	N/A	N/A	N/A	N/A	**100%**	100%

Departmental Management Performance Measures

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
Percent of Federal Information Security Management Act (FISMA - formerly Government Information Security Reform Act) reviews and reporting requirements completed	N/A	N/A	80%	100%	**100%**	100%
Increase the number of faith-based/ community organizations providing services to homeless veterans	N/A	N/A	N/A	Baseline	**27%**	10%
	Goal Not Achieved - - Minimal Difference					
Percent of cases using alternate dispute resolution (ADR) techniques	12%	13%	29%	54%	**58%**	60%
Percent of cases processed in less than 180 days after filing (HRA)	41%	67%	87%	89%	**89%**	91%
Percent of VA Central Office-based top management officials, other key personnel, and emergency planners who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level	30%	30%	60%	60%	**75%**	80%

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved -- Significant Difference					
Cumulative percent of competitive sourcing of commercial activities	N/A	N/A	N/A	5%	**5.5%**	15%

VA's entire OMB-approved Competitive Sourcing plan has been put on hold due to statutory prohibitions contained in Section 8110(a)(5) of Title 38 U.S.C. VA senior management is currently discussing legislative strategies, but no imminent relief from the prohibition is anticipated.

Participation rate in the monthly Minority Veterans Program Coordinators (MVPC) conference call	40%	27%	20%	30%	**10%**	60%

The Center is unable to control the participation rate in monthly calls. This measure is being reviewed for effectiveness.

Measures Under Development

Maintain VA IT Enterprise Architecture	N/A	N/A	N/A	N/A	**100%**	Baseline
Percent of VA field-based top management officials, other key personnel, and emergency managers who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level	N/A	N/A	N/A	N/A	**65%**	Baseline

Data Not Available

Percent of statutory minimum goals met for small business concerns (data from Federal Procurement Data System available November 2003)	37%	33%	23%	30%	**Not Available**	23%

Office of Inspector General Performance Measures

P&F ID Code: 36-0170-0-1-705; 36-0111-0-1-703

Resources	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 Actual	FY 2003 Plan
FTE	342	354	370	393	**399**	411
Administrative costs ($ in millions)	$38	$45	$49	$56	**$58**	$59

Performance Measures

	Goal Achieved					
Number of indictments, arrests, convictions, and administrative sanctions	696	938	1,655	1,621	**1,894**	1,675
Number of reports issued	162	124	136	169	**182**	176
Value of monetary benefits ($ in millions) from: IG investigations	$24	$28	$52	$85	**$64**	$31
IG contract reviews	$47	$35	$42	$62	**$82**	$50
Customer Satisfaction - Investigations	4.7	4.6	4.8	4.9	**4.9**	4.9
	Goal Not Achieved - -Minimal Difference					
Customer Satisfaction:						
Combined Assessment Program Reviews	N/A	N/A	N/A	4.4	**4.1**	4.4
Audit	4.3	4.4	4.2	4.3	**4.2**	4.4
Contract Reviews	4.6	4.8	4.7	4.8	**4.5**	4.9
Healthcare Inspections	4.5	4.4	4.2	4.5	**4.4**	4.7

The performance goal for these measures was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

	Goal Not Achieved -- Significant Difference					
Value of monetary benefits ($ in millions) from:						
IG audits	$610	$264	$4,095	$730	**$8**	$656

Several anticipated audits that would have produced a significant monetary return were not completed during FY 2003. This resulted in a marked decrease in the actual monetary return. Those audits, along with several others, are expected to produce monetary benefits at or exceeding previous performance levels.

A Letter from the Chief Financial Officer

I am pleased to report that the Department of Veterans Affairs continued its tradition of financial excellence in FY 2003. For the fifth straight year, VA received an unqualified opinion on its financial statements from the external auditors, Deloitte & Touche. We continue to improve our fiscal management and accountability by enhancing internal controls, complying with financial management laws and regulations, and taking timely corrective actions on the auditors' recommendations concerning reportable conditions, material weaknesses, and nonconformances.

In FY 2003, we made significant progress on the two outstanding material weaknesses reported by Deloitte & Touche – Information Technology Security Controls and Lack of Integrated Financial Management System. We have maximized resources to make significant improvement in our overall security posture in the near term through prioritizing Federal Information Security Management Act remediation activities. Also, the Department has attained significant milestones in the implementation of our integrated Core Financial and Logistics System (CoreFLS). The system will go live for all phase-one operational test sites at the beginning of FY 2004, and we plan to conclude full implementation nationwide on schedule.

In addition, we corrected one material weakness, Housing Credit Assistance Program, and plan to close another, Personnel Accounting Integrated Data (PAID) System – Mission Performance, by October 2003. We are currently working on the remaining two material weaknesses, Inadequate Controls/Weaknesses in the Compensation and Pension Payment Process, and Compensation and Pension System – Lack of Adaptability and Documentation. We have begun efforts to address the requirements of the Improper Payments Information Act of 2002 and have initiated procedures to augment our internal controls in the area of erroneous payments. We continue to take measures to pinpoint overpayments in each program area and determine the nature and causes of the overpayments. Also, to address the Compensation and Pension System weakness, we have remediation plans in place for total conversion to the Veterans Services Network (VETSNET) to replace the current payment system. When implemented, VETSNET will enhance our responsiveness to veterans' needs.

The Department continues to make progress in implementing the Government Performance and Results Act. We continue to assess and refine our performance measures, the quality of data used to compute those measures, and procedures for compiling performance data. Also, procedures are being developed to enhance data validation to ensure that our stakeholders have useful and accurate performance data.

While we are proud of our accomplishments in FY 2003, we will continue to improve all aspects of our performance and strive to maintain higher financial management standards in FY 2004. We will also continue to promote effective management controls and focus on implementation of the President's Management Agenda initiatives.

William H. Campbell

Consolidated Financial Statements

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (DOLLARS IN MILLIONS)
AS OF SEPTEMBER 30,

	2003	2002
ASSETS		
INTRAGOVERNMENTAL		
Fund Balance with Treasury (Note 3)	$ 17,795	$ 15,076
Investments (Note 5)	13,941	14,135
Accounts Receivable, Net (Note 6)	196	114
Other Assets	96	95
TOTAL INTRAGOVERNMENTAL ASSETS	**32,028**	**29,420**
PUBLIC		
Investments (Note 5)	201	214
Accounts Receivable, Net (Note 6)	859	1,199
Loans Receivable, Net (Note 7)	4,655	4,541
Cash (Note 4)	41	40
Inventories (Note 8)	73	82
General Property, Plant and Equipment (Note 9)	10,949	11,028
Other Assets	29	28
TOTAL PUBLIC ASSETS	**16,807**	**17,132**
TOTAL ASSETS	**$ 48,835**	**$ 46,552**
LIABILITIES		
INTRAGOVERNMENTAL		
Accounts Payable	$ 61	$ 74
Debt	2,854	3,026
Other Liabilities (Note 13)	3,506	2,016
TOTAL INTRAGOVERNMENTAL LIABILITIES	**6,421**	**5,116**
PUBLIC		
Accounts Payable	2,907	2,564
Liabilities for Loan Guarantees (Note 7)	4,756	5,662
Federal Employee and Veterans Benefits Liability (Note 11)	956,688	850,963
Environmental and Disposal Liabilities (Note 12)	375	271
Insurance Liabilities (Note 15)	12,640	12,870
Other Liabilities (Note 13)	6,309	6,090
TOTAL PUBLIC LIABILITIES	**983,675**	**878,420**
TOTAL LIABILITIES	**990,096**	**883,536**
NET POSITION		
Unexpended Appropriations	4,233	3,366
Cumulative Results of Operations	(945,494)	(840,350)
TOTAL NET POSITION	**(941,261)**	**(836,984)**
TOTAL LIABILITIES AND NET POSITION	**$ 48,835**	**$ 46,552**

The accompanying Notes are an integral part of these financial statements.

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF NET COST (DOLLARS IN MILLIONS)
YEAR ENDED SEPTEMBER 30,

	2003	2002
NET PROGRAM COSTS (NOTE 18)		
Medical Care	$ 23,576	$ 21,963
Medical Education	1,036	1,019
Medical Research	826	807
Compensation	25,546	22,893
Pension	3,491	3,225
Education	1,740	1,317
Vocational Rehabilitation and Employment	649	504
Loan Guaranty	(988)	160
Insurance	91	66
Burial	325	402
NET PROGRAM COSTS BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITIES	**56,292**	**52,356**
Compensation	105,800	156,700
Burial	(200)	600
SUBTOTAL	105,600	157,300
NET NON-PROGRAM COSTS	582	659
NET COST OF OPERATIONS (NOTE 18)	**$ 162,474**	**$ 210,315**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2003
(DOLLARS IN MILLIONS)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (840,350)	$ 3,366
Cumulative Effect of Changes in Accounting Principles (Note 22)	-	-
Subtotal	(840,350)	3,366
Budgetary Financing Sources		
Appropriations Received	-	59,060
Other Adjustments	(1,113)	1,092
Appropriations Used	59,285	(59,285)
Nonexchange Revenue	1	-
Donations	27	-
Other Financing Sources		
Donations of Property	15	-
Transfers-out	(1,925)	-
Imputed Financing	1,082	-
Other	(42)	-
Total Financing Sources	**57,330**	**867**
Net Cost of Operations	(162,474)	-
Ending Balances	**$ (945,494)**	**$ 4,233**

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2002
(DOLLARS IN MILLIONS)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (683,050)	$ 4,115
Cumulative Effect of Changes in Accounting Principles (Note 22)	(618)	-
Subtotal	(683,668)	4,115
Budgetary Financing Sources		
Appropriations Received	-	52,931
Other Adjustments	-	(113)
Appropriations Used	53,567	(53,567)
Nonexchange Revenue	2	-
Donations	33	-
Other Financing Sources		
Donations of Property	15	-
Transfers-out	(909)	-
Imputed Financing	925	-
Other	-	-
Total Financing Sources	**53,633**	**(749)**
Net Cost of Operations	(210,315)	-
Ending Balances	**$ (840,350)**	**$ 3,366**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19) (DOLLARS IN MILLIONS)

YEAR ENDED SEPTEMBER 30, 2003

	Budgetary	Credit Financing
Budgetary Resources		
Budget Authority	$ 61,723	$ 1,334
Unobligated Balance at the Beginning of the Period	15,579	5,316
Net Transfers-Prior Year Balance	(105)	-
Spending Authority from Offsetting Collections	4,906	4,666
Adjustments	(206)	(1,506)
Total Budgetary Resources	**$ 81,897**	**$ 9,810**
Status of Budgetary Resources		
Obligations Incurred	$ 65,689	$ 3,660
Unobligated Balance Available	13,708	218
Unobligated Balance Not Yet Available	2,500	5,932
Total Status of Budgetary Resources	**$ 81,897**	**$ 9,810**
Outlays		
Obligations Incurred	$ 65,689	$ 3,660
Less Spending Authority from Offsetting Collections and Adjustments	(4,906)	(4,666)
Obligated Balance, Net Beginning of Period	7,819	103
Less Obligated Balance, Net End of Period	(8,945)	(76)
Outlays	59,657	(979)
Less Offsetting Receipts	(2,174)	-
Net Outlays	**$ 57,483**	**$ (979)**

DEPARTMENT OF VETERANS AFFAIRS

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 19) (DOLLARS IN MILLIONS)

YEAR ENDED SEPTEMBER 30, 2002

	Budgetary	Credit Financing
Budgetary Resources		
Budget Authority	$ 55,254	$ 3,750
Unobligated Balance at the Beginning of the Period	15,481	4,678
Net Transfers-Prior Year Balance	(66)	-
Spending Authority from Offsetting Collections	4,130	5,641
Adjustments	(349)	(2,642)
Total Budgetary Resources	**$ 74,450**	**$ 11,427**
Status of Budgetary Resources		
Obligations Incurred	$ 58,871	$ 6,111
Unobligated Balance Available	13,119	-
Unobligated Balance Not Yet Available	2,460	5,316
Total Status of Budgetary Resources	**$ 74,450**	**$ 11,427**
Outlays		
Obligations Incurred	$ 58,871	$ 6,111
Less Spending Authority from Offsetting Collections and Adjustments	(4,130)	(5,641)
Obligated Balance, Net Beginning of Period	7,354	114
Less Obligated Balance, Net End of Period	(7,819)	(103)
Outlays	54,276	481
Less Offsetting Receipts	(2,226)	-
Net Outlays	**$ 52,050**	**$ 481**

The accompanying Notes are an integral part of these financial statements.

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED STATEMENTS OF FINANCING (NOTE 20)
YEAR ENDED SEPTEMBER 30,
(DOLLARS IN MILLIONS)

	2003	2002
Resources Used to Finance Activities		
Obligations Incurred	$ 69,349	$ 64,982
Less Spending Authority from Offsetting Collections and Adjustments	(9,572)	(9,771)
Obligations Net of Offsetting Collections and Adjustments	59,777	55,211
Less Offsetting Receipts	(2,174)	(2,226)
Net Obligations	57,603	52,985
Donations of Property	15	15
Transfers-out	(1,925)	(847)
Imputed Financing	1,082	925
Other Financing Sources	(42)	(11)
Total Resources Used to Finance Activities	**56,733**	**53,067**
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services and Benefits Ordered But Not Yet Provided	(357)	(38)
Resources that Finance the Acquisition of Assets	(4,428)	(7,078)
Resources that Fund Expenses Recognized in Prior Periods	(1,105)	(873)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	4,812	5,829
Other	2	2
Total Resources That Do Not Fund Net Costs of Operations	(1,076)	(2,158)
Total Resources Used to Finance the Net Cost of Operations	**55,657**	**50,909**
Costs That Do Not Require Resources in the Current Period		
Increase in Annual Leave Liability	55	48
Increase in Environmental and Disposal Liability	104	12
Reestimates of Credit Subsidy Expense	(565)	793
Increase in Exchange Revenue Receivable from the Public	157	8
Increase in Veterans Benefits Actuarial Liability	105,600	157,300
Depreciation and Amortization	1,345	809
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	194	89
Loss on Disposition of Assets	109	89
Other	(182)	258
Total Costs That Do Not Require Resources in the Current Period	**106,817**	**159,406**
Net Cost of Operations	**$ 162,474**	**$ 210,315**

The accompanying Notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the Years Ended September 30, 2003 and 2002 (Dollars in Millions)

1. Summary of Significant Accounting Policies

Basis of Presentation

The Department of Veterans Affairs' (VA) consolidated financial statements report all activities of VA components, including the Veterans Health Administration (VHA), Veterans Benefits Administration (VBA), National Cemetery Administration (NCA) and staff organizations. The consolidated financial statements meet the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act (GMRA) of 1994. The consolidated financial statements differ from the financial reports used to monitor and control budgetary resources, but are prepared from the same books and records. The statements should be read with the understanding that VA is a component unit of the U.S. Government. VA fiscal year (FY) 2003 and FY 2002 financial statements are presented in conformity with the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," as amended.

Reporting Entity

The mission of VA is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries [(38 U.S.C. Section 301(b) 1997)].

The Department is organized under the Secretary of VA. The Secretary's office includes a Deputy Secretary and has direct lines of authority over the Under Secretary for Health (VHA), the Under Secretary for Benefits (VBA), and the Under Secretary for Memorial Affairs (NCA). Additionally, six Assistant Secretaries, an Inspector General, a General Counsel, the chairmen of the Board of Contract Appeals and the Board of Veterans' Appeals support the Secretary.

Budgets and Budgetary Accounting

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources, and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of the purchase. Assets and liabilities that do not consume budgetary resources are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) standards. The Comptroller General, the Secretary of the Treasury, and the Director of the OMB sponsor FASAB, which determines Federal accounting concepts and standards.

Revenues and Other Financing Sources

Exchange revenues are recognized when earned to the extent the revenue is payable to VA from other Federal agencies or the public as a result of costs incurred or services performed on its behalf. Revenue is recognized at the point the service is rendered. Imputed financing sources consist of imputed revenue for expenses relating to legal claims paid by Treasury's Judgment Fund and post-retirement benefits for VA employees. Non-exchange revenue, e.g., donations, are recognized when received, and related receivables are recognized when measurable and legally collectible, as are refunds and related offsets.

Accounting for Intragovernmental Activities

VA, as a department of the Federal Government, interacts with and is dependent upon the financial activities of the Federal Government as a whole. Therefore, these consolidated financial statements do not reflect the results of all financial decisions applicable to VA as though the department were a stand-alone entity.

In order to prepare reliable financial statements, transactions occurring among VA components must be eliminated. All significant intra-entity transactions were eliminated

from VA's consolidated financial statements.

Fund Balance with Treasury

The Department of the Treasury (Treasury) performs cash management activities for all Federal Government agencies. The Fund Balance with Treasury represents the right of VA to draw on the Treasury for allowable expenditures. Trust fund balances consist primarily of amounts related to the Post-Vietnam Educational Assistance Trust Fund, the National Service Life Insurance (NSLI) Fund, the United States Government Life Insurance (USGLI) Fund, the Veterans Special Life Insurance (VSLI) Fund, General Post Fund, and the National Cemetery Gift Fund. The use of these funds is restricted.

Cash

Cash consists of Canteen Service and Loan Guaranty Program amounts held in commercial banks as well as Agent Cashier advances at VA field stations. Treasury processes all other cash receipts and disbursements. Amounts relating to the Loan Guaranty Program represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios.

Investments

Investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for comparable Treasury issues. Special bonds, which mature during various years through the year 2017, are generally held to maturity unless needed to finance insurance claims and dividends. Other investments from VA programs are in securities issued by Treasury, with the exception of Insurance Program holdings in stock received from Prudential as a result of its demutualization and the Loan Guaranty Program investments, which are in trust certificates issued by the American Housing Trusts, private entities not associated with the Government.

Allowances are recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust certificates I through V. The estimated allowance computations are based upon discounted cash flow analysis. Although VA continues to use the income from these subordinated certificates to cover the immediate cash requirements of the Federal guarantee on loans sold under American Housing Trust certificates VI through XI and the Veterans Mortgage Trust program, the income is reimbursed to VA and is not used to pay the amount of the realized losses on guaranteed loan sales.

Accounts Receivable

Intragovernmental accounts receivable consists of amounts due from other Federal Government agencies. No allowances for losses are required.

Public Accounts Receivable consists mainly of amounts due from patients and third-party insurers for veterans' health care and amounts due from individuals for compensation, pension, and readjustment benefit overpayments. For FY 2003 and FY 2002, allowances for bad debt losses were 9 percent and 16 percent, respectively, for medical-related contractually adjusted receivables. Educational–related receivables bad debt allowances were 37 percent for FY 2003 and 45 percent for FY 2002. Compensation and pension benefits overpayment-related bad debt receivables were 74 percent for both FY 2003 and FY 2002.

VA is required by Public Law 96-466 to charge interest and administrative costs on benefits debts similar to charges levied on other debts owed the Federal Government. In a July 1992 decision, the former VA Deputy Secretary decided that VA would not charge interest on compensation and pension debts. This decision continues to be VA policy.

Loans Receivable

Loans Receivable are recorded as funds are disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable amounts are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances. For loans obligated after September 30, 1991, an allowance equal to the subsidy costs associated with these loans reduces the loans receivable. This reduction is due to the interest rate differential between the loans and borrowing from Treasury, the estimated delinquencies and defaults, net of recoveries, offsets from fees, and other estimated cash flows.

Inventories

Inventories consist of items such as precious metals held for sale and Canteen Service retail store stock and are valued at cost, utilizing the First In First Out (FIFO) method. VA follows the purchase method of accounting for operating supplies, medical supplies, and pharmaceutical supplies in

the hands of end users. The purchase method provides that these items be expensed when purchased. VA defines an end user as a VA medical center, regional office, or cemetery.

Property, Plant, and Equipment

The majority of the general property, plant, and equipment is used to provide medical care to veterans and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized, whereas routine maintenance is expensed when incurred. Construction costs are capitalized as Construction in Progress until completion, and then transferred to the appropriate property account. Individual items are capitalized if the useful life is 2 years or more and the unit price is $100,000 or greater. Buildings are depreciated on a straight-line basis over estimated useful lives of 25 to 40 years. Equipment is also depreciated on a straight-line basis over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant, and equipment. All VA heritage assets are multi-use facilities and are classified as general property, plant, and equipment.

Other Assets

Other assets consist of advance payments. Public advance payments are primarily to hospitals and medical schools under house staff contracts, grantees, beneficiaries, and employees on official travel. Intragovernmental advance payments are primarily to the General Services Administration (GSA) for rent and Government Printing Office (GPO) for supplies, printing, and equipment.

Accounts Payable

Intragovernmental accounts payable consists of amounts owed to other Federal Government agencies. The remaining accounts payable consist of amounts due to the public.

Loan Guarantees

For direct loan obligations and loan guaranty commitments made after 1991, the resulting direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. The present value of the subsidy costs associated with direct loans and loan guarantees is recognized as a cost in the year the direct or guaranteed loan is disbursed. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimated will most likely require a future cash outflow to pay defaulted claims. Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The guaranteed loan sales liability represents the present value of the estimated cash flows to be paid by VA as a result of the guarantee. VA guarantees that the principal and interest payment due on a loan will be paid by the 15th of each month. If the payment is not made, VA allows the loan servicer to receive funds from a cash reserve account for the amount of the deficiency. VA guarantees the loans against losses at foreclosure. Although VA will not buy back the loan, VA will pay the loan loss and foreclosure expenses.

Debt

All Intragovernmental debt is due to Treasury and is primarily related to borrowing by the Loan Guaranty Program. The interest rates ranged from 1.20 to 5.03 percent in FY 2003 and from 1.94 to 5.62 percent in FY 2002. VA's financial activities interact with and are dependent upon those of the Federal Government as a whole.

Insurance Liabilities

Actuarial reserve liabilities for VA's insurance programs are based on mortality and interest rate assumptions at the time of issue. These assumptions vary by fund, type of policy and type of benefit. The interest rate assumptions range from 2.25 to 5.0 percent for both the FY 2003 and FY 2002 calculations.

Annual Leave

The accrued annual leave balance is adjusted at the end of the fiscal year to reflect current pay rates for leave that has been earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by the

Department of Labor (DOL) and are ultimately paid by VA.

Workers' compensation is comprised of two components: (1) the accrued liability which represents money owed by VA to DOL for claims paid by DOL on behalf of VA through the current fiscal year, and (2) the actuarial liability for compensation cases to be paid beyond the current year.

Future workers' compensation estimates are generated from an application of actuarial procedures developed by DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported. The liability is determined by utilizing historical benefit payment patterns related to a particular period to estimate the ultimate payments related to that period.

Pension, Other Retirement Benefits, and Other Post-Employment Benefits

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees. Factors used in the calculation of these pensions and post-retirement health and life insurance benefit expenses are provided by the Office of Personnel Management (OPM) to each agency.

VA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which VA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. VA does not maintain or report information about the assets of the plans, nor does it report actuarial data for the accumulated plan benefits. That reporting is the responsibility of OPM.

Veterans Benefits Liability

VA provides compensation benefits to veterans who are disabled by military service-related causes. Benefits are also provided to deceased veterans' beneficiaries. These benefits are provided in recognition of a veteran's military service. The liability for future compensation payments is reported on VA's balance sheet at the present value of expected future payments, and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments, discount rates, cost of living adjustments and life expectancy, impact the amount of the liability.

Litigation

VA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of VA management and legal counsel, the ultimate resolutions of these proceedings, actions, and claims, will not materially affect the financial position or results of VA operations.

Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

2. Non-Entity Assets

Entity and Non-Entity assets have been combined on the face of the balance sheet. Non-Entity assets relate primarily to patient funds.

Non-Entity Assets as of September 30,	2003	2002
Fund Balance with Treasury	$ 57	$ 42
Intragovernmental Accounts Receivable	1	1
Public Accounts Receivable	14	19
Total Non-Entity Assets	$ 72	$ 62

3. Fund Balance With Treasury

Fund Balance with Treasury as of September 30,	2003	2002
Entity Assets		
Trust Funds	$ 89	$ 107
Revolving Funds	7,190	6,054
Appropriated Funds	10,427	8,780
Special Funds	116	105
Other Fund Types	(83)	(12)
Total Entity Assets	$ 17,739	15,034
Non-Entity Assets		
Other Fund Types	56	42
Total Non-Entity Assets	56	42
Total Entity and Non-Entity Assets	$ 17,795	$ 15,076
Reconciliation of VA General Ledger Balances with Treasury		
Entity VA General Ledger	$ 17,867	$ 15,114
Reconciled Differences	(75)	(42)
Unreconciled Differences	3	4
Fund Balance with Treasury	$ 17,795	$ 15,076
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 2,153	$ 1,540
Unavailable	6,554	5,584
Obligated Balance not yet Disbursed	9,114	7,922
Deposit/Clearing Account Balances	(26)	30
Fund Balance with Treasury	$ 17,795	$ 15,076

4. Cash

Cash as of September 30,	2003	2002
Canteen Service	$ 1	$ 1
Agent Cashier Advance	4	4
Loan Guaranty Program	36	35
Total Cash	$ 41	$ 40

5. Investments

Investment Securities as of September 30,		2003	2002
Intragovernmental Securities	Interest Range		
Special Bonds	5.00 - 10.00%	$ 13,618	$ 13,816
Treasury Notes *	1.64 - 7.25%	92	74
Treasury Bills	0.11 - 0.79%	2	2
Subtotal		13,712	13,892
Accrued Interest		229	243
Total Intragovernmental Securities		$ 13,941	$ 14,135
Other Securities			
Prudential Stock (Insurance)		$ 9	$ 11
Trust Certificates (Loan Guaranty)		192	203
Total Other Securities		$ 201	$ 214

*The investment in Treasury Notes includes unamortized premiums of $0.7 million as of September 30, 2003 and $0.7 million as of September 30, 2002. Premiums and discounts are amortized on a straight-line basis over the life of the investments.

Offset for Losses on Investments as of September 30,	2003	2002
Investment in Subordinate Certificates at Time of Sale	$ 425	$ 424
Cumulative Reductions	(224)	(200)
Subtotal	201	224
Allocation of Loss Provision	(9)	(21)
Trust Certificates (Loan Guaranty)	$ 192	$ 203

6. Accounts Receivable, Net

Accounts Receivable, Net as of September 30,	2003	2002
Intragovernmental Accounts Receivable	$ 196	$ 114
Public Accounts Receivable, Gross	$ 2,029	$ 2,567
Allowance for Loss Provision	(1,170)	(1,368)
Net Public Accounts Receivable	$ 859	$ 1,199

7. Direct Loans and Loan Guarantees

Direct loan obligations and loan guarantee commitments made after 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990. The Act provides that the present value of the subsidy costs associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy costs at present value, and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guarantees are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guarantees is the amount VA estimates will most likely require a future cash outflow to pay defaulted claims.

Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

The recorded value of loans receivable, net, and the value of assets related to direct loans are not the same as the proceeds that VA would expect to receive from selling its loans. VA operates the following direct loan and loan guaranty programs:

- Vocational Rehabilitation and Employment;
- Education;
- Insurance; and
- Loan Guaranty

Under the Loan Guaranty Program, a loan may be made to an eligible veteran by an approved private sector mortgage lender. VA guarantees payment of a fixed percentage of the loan indebtedness to the holder of such a loan, up to a maximum dollar amount, in the event of default by the veteran borrower. When a delinquency is reported to VA and no realistic alternative to foreclosure is developed by the loan holder or VA supplemental servicing of the loan, VA determines, through an economic analysis, whether VA will authorize the holder to convey the property securing the loan (foreclosure) or pay the loan guarantee amount to the holder.

Direct Loans

Loans receivable related to direct loans represent the net value of assets related to pre-1992 and post-1991 direct loans acquired. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy costs. An analysis of loans receivable and the nature and amounts of the subsidy costs associated with the direct loans are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property From Direct Loans

as of September 30, 2003	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 114	$ 15	$ -	$ -	$ 129
Direct Loans Obligated after 1991	1,585	29	1,136	87	2,837
Insurance Policy Loans	770	19	-	-	789
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					$ 3,755

Loans Receivable and Related Foreclosed Property From Direct Loans

as of September 30, 2002	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	$ 148	$ 19	$ -	$ -	$ 167
Direct Loans Obligated after 1991	1,619	48	853	64	2,584
Insurance Policy Loans	827	20	-	-	847
Total Loans Receivable and Related Foreclosed Property from Direct Loans, Net					$ 3,598

Direct Loans Disbursed

The total amount of direct loans disbursed for the years ended September 30, 2003 and 2002, was $563 and $1,076 million, respectively.

Provision for Losses on Pre-1992 Loans

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the cost VA will bear as loans already guaranteed default in the future. This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on vendee loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of U.S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a 12-year period. For FY 2003, VA determined

that these vendee loans have sufficient equity due to real estate appreciation and buy-down of principal, to minimize or eliminate any potential loss to VA. The components of the provision are as follows:

Provision for Loss as of September 30,	2003	2002
Offsets Against Foreclosed Property Held for Sale	8	8
Total Provision for Loss	$ 8	$ 8

Subsidy Expense for Post-1991 Direct Loans

Pursuant to the Credit Reform Act, all direct loans established after September 30, 1991, will be subsidized. The subsidy expense for direct loans is as shown:

Direct Loan Subsidy Expense for the years ended September 30,	2003	2002
Interest Differential	$ (55)	$ (175)
Defaults*	12	33
Fees**	(9)	(926)
Other***	44	1,077
Subtotal	(8)	9
Interest Rate Reestimates	(178)	181
Technical Reestimates	(44)	14
Total Direct Loans	$ (230)	$ 204

* Includes approximately $42,000 and $58,000 in defaults and other expenses for the Vocational Rehabilitation Program for FY 2003 and 2002 respectively.
** "Fees" expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.
*** The "Other" expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

Subsidy Rates for Direct Loans by Component

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Subsidy rates for direct loans	
Interest Differential	$ (10.64%)
Defaults	2.36%
Fees	(1.66%)
Other	8.55%

Allowance for Subsidy for Direct Loans (Post-1991)

VA reports the allowance for subsidy for direct loans, subject to Credit Reform requirements. For these loans, the allowance for subsidy represents the present value of the estimated net cash flows to be paid by VA as a result of a disbursed direct loan. VA disburses a direct loan and receives an allowance for subsidy along with borrowing from Treasury. For both FY 2003 and FY 2002, the subsidy rate is 0.86 percent. The allowance for subsidy as of September 30, 2003 and 2002 is ($974) and ($853) million respectively.

Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance, Changes and Ending Balance	FY 2003	FY 2002
Beginning balance of the allowance	$ (853)	$ (1,044)
Subsidy expense for direct loans disbursed during the reporting years by component:		
Interest subsidy costs	(55)	(175)
Default costs (net of recoveries)	12	33
Fees and other collections	(9)	(926)
Other subsidy costs	44	1,077
Total of the above subsidy expense components	(8)	9
Adjustments:		
Loan modification	-	-
Fees received	11	18
Foreclosed property acquired	(5)	11
Loans written off	(6)	(7)
Subsidy allowance amortization	(53)	(35)
Other	-	-
Ending balance of the allowance before reestimates	(914)	(1,048)
Subsidy reestimates by component		
Interest rate reestimate	(44)	181
Technical/default reestimate	(178)	14
Total of the above reestimate components	(222)	195
Ending balance of the allowance	$ (1,136)	$ (853)

Loan Guarantees

Loans receivable related to loan guarantees represent the net value of assets related to pre-1992 and post-1991 defaulted guaranteed loans and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loan guarantees are provided in the tables that follow:

Loans Receivable and Related Foreclosed Property from Loan Guarantees as of September 30,

2003	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	147	4	(138)	46	59
Defaulted Guaranteed Loans Post-1991	-	-	-	841	841
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 900

Loans Receivable and Related Foreclosed Property from Loan Guarantees

as of September 30,

2002	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Defaulted Guaranteed Loans Pre-1992 Guarantees	162	5	(150)	54	71
Defaulted Guaranteed Loans Post-1991	-	-	-	872	872
Total Loans Receivable and Related Foreclosed Property from Loan Guarantees					$ 943

Total Loans Receivable and Related Foreclosed Property, Net
for the years ended September 30,

	2003	2002
Total Direct Loans	$ 3,755	$ 3,598
Total Guaranteed Loans	900	943
Total Loans Receivable and Related Foreclosed Property, Net	$ 4,655	$ 4,541

Foreclosed Property

Prior to the foreclosure of property secured by a VA loan, VA obtains an independent appraisal of the property. This appraisal is reviewed by VA staff who make a determination of the fair market value. To determine the net value of the property, VA costs for acquisition, management and disposition of the property, as well as estimated losses on property resale, are subtracted from the estimated fair market value. As of September 30, 2003 and 2002, the estimated number of residential properties in VA's inventory was 11,872 and 11,981, respectively. For FY 2003 and FY 2002, the average holding period from the date properties were conveyed to VA until the properties were sold was estimated to be 8.9 months and 8.7 months, respectively. The number of properties for which foreclosure proceedings are in process is estimated to be 10,513 and 10,986 as of September 30, 2003 and 2002, respectively.

Guaranteed Loans
as of September 30,

	2003	2002
Guaranteed Loans Outstanding:		
Outstanding Principal Guaranteed Loans, Face Value	$ 213,248	$ 216,042
Amount of Outstanding Guarantee	67,654	69,547
New Guaranteed Loans Disbursed:		
Outstanding Principal Guaranteed Loans, Face Value	$ 63,255	$ 40,129
Amount of Outstanding Guarantee	18,245	11,667
Liabilities for Loan Guarantees Post 1991 (Present Value)	$ 4,756	$ 5,662

Guaranty Commitments

As of September 30, 2003, VA had outstanding commitments to guarantee loans that will originate in FY 2004. The number and amount of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA's guaranteed loans originate under this authority.

Subsidy Expense for Post-1991 Loan Guarantees

Pursuant to the Credit Reform Act, guaranteed loans closed after September 30, 1991, will be subsidized. The subsidy expense for loan guarantees related to the Loan Guaranty Program is as shown:

Guaranteed Loan Subsidy Expenses for the years ended September 30,	2003	2002
Defaults	$ 1,678	$ 1,242
Fees*	(1,145)	(723)
Other**	-	(374)
Subtotal	533	145
Interest Rate Reestimates	(1,407)	(82)
Technical Reestimates	(471)	(88)
Total Guaranteed Loan Subsidy Expense	$ (1,345)	$ (25)

* The "Fees" expense includes estimated up-front fees collected when the loans are guaranteed and the present value of estimated annual fees from loan assumptions.
** The "Other" expense for guaranteed loans includes estimated recoveries on defaults through the sales of foreclosed properties.

Loan Sale-Guaranteed Loan Subsidy Expense for the years ended September 30,	2003	2002
Defaults	$ 14	$ 49
Other	-	-
Subtotal	14	49
Interest Rate Reestimates	(50)	(57)
Technical Reestimates	(109)	(96)
Total Loan Sale-Guaranteed Subsidy Expense	$ (145)	$ (104)

Total Subsidy Expense for the years ended September 30,	2003	2002
Total Direct Loans	$ (230)	$ 204
Total Guaranteed Loans	(1,346)	(25)
Total Sale Loans	(145)	(104)
Total Subsidy Expense	$ (1,721)	$ 75

Subsidy Rates for Loan Guarantees by Component

The subsidy rates disclosed below pertain only to the current year cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Subsidy Rates for Loan Guarantees	
Defaults	2.25%
Fees	(1.74%)
Other	0%

Loan Sales

VA continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 2003, the total loans sold amounted to $13.5 billion. Under the sale of vendee loans, certificates are issued pursuant to the Pooling and Servicing Agreement (the Agreement) among VA, the Master Servicer, and the Trustee. On the closing date of the certificates, VA transfers its entire interest in the related loans to the Trustee for the benefit of the related certificate holders pursuant to the Agreement. Under the Agreement, the Trust will issue certificates backed by mortgage loans and installment contracts. The Trust owns the mortgage loans and other property described in the offering and the Trust makes elections to treat certain of its assets as one or more Real Estate Mortgage Investment Conduits (REMIC) for U.S. Federal income tax purposes. The certificates represent interests in the assets of the Trust and are paid from the Trust's assets. The certificates are issued as part of a designated series that may include one or more classes. VA guarantees that the investor will receive full and timely distributions of the principal and interest on the certificates, and that guaranty is backed by the full faith and credit of the Federal Government.

VA may terminate the Trust, causing the early retirement of certificates, by purchasing all of the Trust's assets on any distribution date on or after the distribution date on which the current aggregate principal balance of all principal certificates is less than 1 percent of the original aggregate principal balance, or if VA determines that the Trust's REMIC status has been lost or a substantial risk exists that such status will be lost. In the event of termination, the certificate holder will be entitled to receive payment for the full principal balance of the certificates plus any accrued interest and unpaid interest through the related distribution date.

The Agreement requires the mortgage loans to be serviced generally in compliance with Fannie Mae and Freddie Mac standards and consistent with prudent residential mortgage loan servicing standards generally accepted in the servicing industry. For mortgage loans sold during 2003 and 2004, servicing is/will be performed by Countrywide Home Loans, Inc. ("CHL" or "Master Servicer"). The Master Servicer is responsible for the performance of all of the servicing functions under the Agreement. The Master Servicer is entitled to be compensated by receiving (1) a service fee of 0.2075 percent per annum payable monthly and calculated by multiplying the interest payment received by a fraction, the numerator of which is 0.2075 percent and the denominator of which is the mortgage interest rate on such loan; (2) earnings on investment of funds in the certificate account; and (3) all incidental fees and other charges paid by the borrowers and a portion of the liquidation proceeds in connection with the liquidated loans.

VA completed one sale during FY 2003 and four sales during FY 2002 totaling approximately $283 million and $970 million of vendee loans, respectively. The components of the vendee sales are summarized in the tables below:

Loan Sales
Years ended September 30,

	2003	2002
Loans Receivable Sold	$ 283	$ 970
Net Proceeds From Sale	299	1,007
Loss (Gain) on Receivables Sold	$ (16)	$ (37)

Outstanding Balance of Loan Sale Guarantees

All loans sold under the American Housing Trust (AHT VI through AHT XI) and the Vendee Mortgage (VMT 92-1 through 03-1) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

Guaranteed Loans Sold
as of September 30,

	2003	2002
Outstanding Balance Guaranteed Loans Sold, Start of Year	$ 7,406	$ 7,952
Sold to the Public	283	970
Payments, Repayments, and Terminations	(2,120)	(1,516)
Outstanding Balance Guaranteed Loans Sold, End of Year	$ 5,569	$ 7,406

Liability for Loan Sale Guarantees (Post-1991)

VA reports the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs, subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. These sales contain two types of guarantees for which VA pays net cash flow. VA guarantees that the principal and interest payment due on a loan sold will be paid by the 15th of each month. If not paid by the borrower, VA allows the loan servicer to take funds from cash reserve accounts for the deficient amount. VA also guarantees the loan against loss at foreclosure. VA will not buy back the loans but will pay off the loan loss and foreclosure expenses. The subsidy rate for FY 2003 and FY 2002 is 5.06 and 5.05 percent, respectively. The liability for loan sale guarantees as of September 30, 2003 and 2002 is $77 and $210 million.

Schedule for Reconciling Loan Sale Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	FY 2003	FY 2002
Beginning balance of the liability	$ 210	$ 283
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	14	49
Fees and other collections	-	-
Other subsidy costs	-	-
Total of the above subsidy expense components	14	49
Adjustments:		
Loan guarantee modifications	-	-
Fees received	-	-
Interest supplements paid	-	-
Foreclosed property and loans acquired	-	-
Claim payments to lenders	(19)	(21)
Interest accumulation on the liability balance	15	17
Other	16	35
Ending balance of the liability before reestimates	236	363
Subsidy reestimates by component		
Interest rate reestimate	(50)	(57)
Technical/default reestimate	(109)	(96)
Total of the above reestimate components	(159)	(153)
Ending balance of the liability	$ 77	$ 210

Liability for Loan Guarantees (Post-1991)

VA reports the liability on the guarantee of loans, subject to Credit Reform requirements. For these loans, the guaranteed loan liability represents the present value of the estimated net cash flows to be paid by VA as a result of a defaulted loan guarantee. VA guarantees the loan against loss at foreclosure for which VA pays net cash flow up to a legally specified maximum based on the value of individual loans. VA will pay the lender the guarantee and foreclosure expenses. If an agreement can be made with the veteran, VA may acquire the loan by refunding the lender for the loan. The FY 2003 and FY 2002 subsidy rate is 0.81 and 0.39 percent, respectively. The liability for loan guarantees as of September 30, 2003 and 2002 is $4,679 and $5,452 million.

Schedule for Reconciling Loan Guarantee Liability Balances

Beginning Balance, Changes and Ending Balance	FY 2003	FY 2002
Beginning balance of the liability	$ 5,452	$ 5,027
Subsidy expense for guaranteed loans disbursed during the reporting years by component:		
Interest subsidy costs	-	-
Default costs (net of recoveries)	1,677	1,242
Fees and other collections	(1,145)	(723)
Other subsidy costs	-	(374)
Total of the above subsidy expense components	532	145
Adjustments:		
Loan guarantee modifications	-	-
Fees received	549	524
Interest supplements paid	-	-
Foreclosed property and loans acquired	189	230
Claim payments to lenders	(449)	(581)
Interest accumulation on the liability balance	284	277
Other	-	-
Ending balance of the liability before reestimates	6,557	5,622
Subsidy reestimates by component		
Interest rate reestimate	(471)	(82)
Technical/default reestimate	(1,407)	(88)
Total of the above reestimate components	(1,878)	(170)
Ending balance of the liability	$ 4,679	$ 5,452

Administrative Expense

Administrative expense on direct and guaranteed loans for the years ended September 30, 2003 and 2002, was $168 and $165 million, respectively.

8. Inventories

Inventories as of September 30,	2003	2002
Held for Current Sale	$ 62	$ 73
Other	11	9
Total Inventories	$ 73	$ 82

9. General Property, Plant and Equipment

Depreciation and amortization expense totaled $779 and $851 million in FY 2003 and FY 2002, respectively.

General Property, Plant and Equipment as of September 30, 2003

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 285	$ (10)	$ 275
Buildings	14,507	(6,599)	7,908
Equipment	3,017	(1,789)	1,228
Other	1,797	(1,021)	776
Work in Progress	762	-	762
Total Property, Plant, and Equipment	$ 20,368	$ (9,419)	$ 10,949

General Property, Plant and Equipment as of September 30, 2002

	Cost	Accumulated Depreciation	Net Book Value
Land and Improvements	$ 269	$ (7)	$ 262
Buildings	14,158	(6,178)	7,980
Equipment	2,938	(1,684)	1,254
Other	1,754	(966)	788
Work in Progress	744	-	744
Total Property, Plant, and Equipment	$ 19,863	$ (8,835)	$ 11,028

10. Liabilities Not Covered By Budgetary Resources

The total amount of VA liabilities not covered by budgetary resources was $959.6 billion and $853.8 billion as of September 30, 2003 and 2002, respectively. The following table contains the components of the balance sheet liability:

Components of Unfunded Liabilities as of September 30,

	2003	2002
Workers' Compensation*	2,239	$ 2,105
Annual Leave	1,097	1,042
Judgment Fund	528	625
Environmental and Disposal	375	271
Accounts Payable – Canceled Appropriations	6	4
Veterans Compensation and Burial	954,800	849,200
Insurance	581	549
Total	959,626	$ 853,796

* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 3.84 percent for FY 2003 and 5.20 percent for FY 2002.

11. Federal Employee and Veterans Benefits

Federal Employee Benefits

Imputed Expenses-Employee Benefits years ended September 30,	2003	2002
Civil Service Retirement System	$ 351	$ 257
Federal Employees Health Benefits	641	576
Federal Employees Group Life Insurance	2	2
Total Imputed Expenses-Employee Benefits	$ 994	$ 835

Veterans Benefits

Certain veterans who die or are disabled from military service-connected causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a veteran's military service and are recorded as a liability on the balance sheet.

Federal Employee and Veterans Benefits Liabilities

as of September 30,	2003	2002
FECA	$ 1,888	$ 1,763
Compensation	951,600	845,800
Burial	3,200	3,400
Total Federal Employee and Veterans Benefits Liabilities	$ 956,688	$ 850,963

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from nonservice-connected causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2003 and 2002 was $102.7 and $91.6 billion, respectively.

Assumptions Used to Calculate the Veterans Benefits Liability

Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) current veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Future benefits payments to survivors of those veterans in classes (1), (2), and (3) are also incorporated into the projection.

All future benefits were discounted. Discount rates were based on rates for securities issued by Treasury on September 30, 2003, ranging from 1.15 to 4.91 percent, and on September 28, 2002, ranging from 1.53 to 4.75 percent. Benefit payments were assumed to occur at the midpoint of the fiscal year.

All calculations were performed separately by attained age for the Compensation and Pension programs, while the Burial liability was calculated on an aggregate basis.

Life expectancies of beneficiaries collecting benefits from the Compensation and Pension programs were based upon studies of mortality experience of those beneficiaries between 1995 and 2003. Life expectancies of veterans not yet collecting these benefits used in the cal-

culation of the liability for future beneficiaries are based on mortality derived from the 1990 U.S. decennial census and beneficiary mortality experience. Applying mortality improvements at a rate of 1 percent per annum brought both sets of mortality rates forward. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected.

The amount of benefits by category and age were based on current amounts being paid and future cost of living adjustments (COLAs) to determine the average benefits per veteran for each future time period. A COLA of 2.1 percent was assumed for FY 2004. For fiscal years after 2003, COLAs have been determined from OMB's estimates prepared in conjunction with the Administration's annual budget. Expected changes in benefits due to other reasons were also reflected.

Expected benefit payments have been explicitly modeled for the next 75 years. This period is approximately the same as that used by the Office of the Actuary of the Social Security Administration (75 years). However, unlike Social Security, estimates of expected benefit payments after this 70-year period were incorporated in the liability based on extrapolations reflecting expected aggregate experience by beneficiary category between the years 65 and 70. The 2002 liability was not changed to 75 years because the change is deemed immaterial.

12. Environmental and Disposal

VA had unfunded environmental and disposal liabilities in the amount of $375 million and $271 million for the years ended September 30, 2003 and 2002, respectively. The majority of the unfunded liabilities involve asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, the Occupational Safety and Health Administration and Environmental Protection Agency regulations are the legal base behind the majority of VA's environmental and disposal liabilities. Estimated liabilities for these projects are based on known contamination that exists today and have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

13. Other Liabilities

Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

Other Intragovernmental Funded Liabilities
as of September 30,

	2003	2002
Deposit and Clearing Account Liabilities	$ (73)	$ (13)
Accrued Expenses - Federal	99	46
Deferred Revenue	446	234
Resources Payable to Treasury	404	467
Custodial Liabilities*	2,260	879
General Fund Receipts Liability	12	20
Accrued VA Contributions for Employee Benefits	2	41
Total Other Intragovernmental Funded Liabilities	$ 3,150	$ 1,674

* The Custodial Liabilities Accounts include subsidy reestimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the Government for the cohorts of loans. The subsidy amount for each cohort is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned.

Other Intragovernmental Unfunded Liabilities
as of September 30,

	2003	2002
Accrued FECA Liability	$ 356	$ 342
Total Other Intragovernmental Unfunded Liabilities	$ 356	$ 342

Other Public Funded Liabilities
as of September 30,

	2003	2002
Accrued Funded Annual Leave	$ 10	$ 10
Accrued Expenses	2,159	1,988
Accrued Salaries and Benefits	420	292
Contract Holdbacks	16	17
Deferred Revenue	1	3
Unredeemed Coupons	1	1
Deposit and Clearing Account Liability	17	42
Unearned Premiums	118	124
Insurance Dividends Left on Deposit and Related Interest Payable*	1,673	1,636
Dividend Payable to Policyholders	254	279
Capital Lease Liability	9	27
Total Other Public Funded Liabilities	$ 4,678	$ 4,419

* Interest earned on dividends left on deposit is paid annually to insurance policyholders on the policy anniversary dates.

Other Public Unfunded Liabilities as of September 30,	2003	2002
Annual Leave*	$ 1,097	$ 1,042
Accounts Payable from Cancelled Appropriation	6	4
Judgment Fund-Unfunded**	528	625
Total Other Public Unfunded Liabilities	$ 1,631	$ 1,671

* Annual leave is accrued when earned and is adjusted at the end of the fiscal year to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.
** The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.

14. Leases

VA has both capital and operating leases. The capital lease liability is $33 and $27 million as of September 30, 2003 and 2002, respectively. Due to the number of operating leases and the decentralization of records, the future commitment for operating leases is not known. VA's FY 2003 operating lease costs were $236 million for real property rentals and $67 million for equipment rentals. The FY 2002 operating lease costs consisted of $206 million for real property rentals and $55 million for equipment rental. The following chart represents VA's estimate for operating lease costs for the next 5 years, assuming a range of 2.5 to 2.9 percent yearly increase in cost.

Leases: YEAR	PERCENTAGE	REAL PROPERTY	EQUIPMENT
2004	2.5	$ 236	$ 67
2005	2.6	242	69
2006	2.7	248	70
2007	2.8	255	72
2008	2.9	262	74

15. Insurance Programs

Through VA, the United States Government administers five life insurance programs and the Veterans' Mortgage Life Insurance program for certain totally disabled veterans. VA supervises the Servicemembers' Group Life Insurance (SGLI) and the Veterans' Group Life Insurance (VGLI) programs, which provide life insurance coverage to members of the uniformed armed services, reservists and post-Vietnam veterans. United State Code, Title 38, requires that the Life Insurance programs invest in Treasury securities.

Administered Programs

The United States Government Life Insurance (USGLI) program was the Government's first venture into life insurance. During World War I, the U.S. provided Marine Insurance to protect the interests of ship owners and merchants who were providing supplies to the allies in Europe. USGLI was the natural outgrowth of this Marine Insurance. The program was established to meet the needs of World War I veterans, but remained

open to servicemembers and veterans with service before October 8, 1940. The Government became a self-insurer because private insurance companies were unwilling to assume the unpredictable risks associated with war. By establishing this program, Congress intended to avoid the financial burden imposed on the Government by the pension programs that were established after previous wars. The Government became the largest life insurer in the United States with the coverage provided by this program.

The National Service Life Insurance (NSLI) program covers policyholders who served during World War II. The program opened October 8, 1940, when it became clear that large-scale military inductions were imminent. Over 22 million policies were issued under the NSLI program. The majority of policies VA administers directly are NSLI policies. This program remained open until April 25, 1951, when two new programs were established for Korean War servicemembers and veterans.

The Veterans' Special Life Insurance (VSLI) program was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict, and the post-Korean period through January 1, 1957. During this period, all servicemembers on active duty were covered for $10,000, at no cost, under a program known as Servicemen's Indemnity. They remained covered for 120 days after their discharge. The VSLI program allowed these newly discharged servicemembers to apply for $10,000 of contract term insurance. Application had to be made during the 120-day period during which they remained covered by Servicemen's Indemnity. It was during this period that representatives of the commercial insurance industry began a major lobbying effort to get the Government out of the insurance business because the programs were viewed as competition. As a result, the VSLI program was closed to new issues at the end of 1956, and coverage for individuals in the uniformed services was terminated. Approximately 800,000 VSLI policies were issued between 1951 and 1957.

In addition to VSLI coverage, which was provided to healthy veterans, the Insurance Act of 1951 also established the Service-Disabled Veterans Insurance (S-DVI) program for veterans with service-connected disabilities. S-DVI is open to veterans separated from the service on or after April 25, 1951, who receive a service-connected disability rating. New policies are still being issued under this program.

In 1964, Congress enacted legislation providing for a limited reopening of NSLI and VSLI, and the Veterans' Reopened Insurance (VRI) program was established. Beginning May 1, 1965, veterans who had been eligible to obtain insurance between October 8, 1940, and January 1, 1957, could once again apply for government life insurance. They had one year to apply for this "reopened" insurance, which was available only to disabled veterans. Approximately 228,000 VRI policies were issued. No term insurance policies were issued in this program.

The Veterans' Mortgage Life Insurance (VMLI) program began in 1971, and is designed to provide financial protection to cover eligible veterans' home mortgages in the event of death. VMLI is issued to those severely disabled veterans who have received grants for specially adapted housing from VA. These grants are issued to veterans whose movement is substantially impaired because of their disability. The maximum amount of VMLI allowed an eligible veteran is $90,000. The insurance is payable if the veteran dies before the mortgage is paid off and is payable only to the mortgage lender.

Supervised Insurance Programs

The Servicemembers' Group Life Insurance (SGLI) program was established in 1965 for Vietnam-era servicemembers. SGLI is supervised by VA and is administered by the Office of Servicemembers' Group Life Insurance (OSGLI) under terms of a group insurance contract. This program provides low-cost term insurance protection to servicemembers.

In 1974, the Veterans' Group Life Insurance (VGLI) program became available. VGLI, like SGLI, is supervised by VA, but is administered by the OSGLI. VGLI provides for the conversion of SGLI coverage to lifetime term insurance protection after a servicemember's separation from service.

Public Insurance Carriers

VA supervises the administration of the SGLI and VGLI programs. Prudential Insurance Company of America (Prudential) provides insurance coverage directly for the SGLI and VGLI programs. VA has entered into a group policy with Prudential whereby Prudential and its reinsurers provide servicemembers and veterans coverage in multiples of $10,000 up to a maximum of $250,000. The basic SGLI coverage is provided to those members on active duty in the Army, Navy, Air Force, Marine Corps, Coast Guard, commissioned members of the Public Health Service and the National Oceanic and Atmospheric Administration. The Ready Reserve is also insured by SGLI, and includes reservists and

members of the National Guard who are assigned to a unit or position in which they may be required to perform active duty or active duty for training. The VGLI coverage is comprised of separated and retired active duty members and reservists covered under Basic SGLI.

The Veterans' Opportunities Act of 2001 extended life insurance coverage to spouses and children of members insured under the SGLI program, effective November 1, 2001. For a spouse, up to $100,000 of coverage can be purchased in increments of $10,000, not to exceed the amount of the servicemember's coverage. Each dependent child of every active duty servicemember or reservist insured under SGLI is automatically insured for $10,000 free of charge.

Premiums for the SGLI and VGLI programs are set by mutual agreement between VA and Prudential. SGLI premiums for active duty personnel and their spouses are deducted from the servicemember's pay by the Armed Services components through the Department of Defense (DoD). DoD, through the Defense Finance and Accounting Service (DFAS), remits collected premiums to VA, which are then transmitted to Prudential. Prudential records the premiums and maintains investments in their accounting records separate and independent from the VA reporting entity. VA monitors Prudential's insurance reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. The reserves for the contingent liabilities are recorded in Prudential's accounting records and are not reflected in the VA reporting entity, because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy.

Effective January 1, 1970, the Secretary of Veterans Affairs determined the costs that are traceable to the extra hazards of duty in the uniformed services, on the basis of the excess mortality incurred by members and former members of the uniformed armed services insured under SGLI, above what their mortality would have been under peacetime conditions. The Secretary is authorized to make adjustments regarding contributions from pay appropriations as may be indicated from actual experience.

Reserve Liabilities

The insurance reserves for administered programs are reported as liabilities covered by budgetary resources, while part of the S-DVI and Veterans Insurance and Indemnities reserves are reported as liabilities not covered by budgetary resources. Reserves for SGLI and VGLI are maintained in Prudential's financial records since the risk of loss is assumed by Prudential. Actuarial reserve liabilities for the administered life insurance programs are based on the mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy and type of benefit. The interest assumptions range from 2.25 to 5.0 percent. The mortality assumptions include the American Experience Table, the 1941 Commissioners Standard Ordinary (CSO) Table, 1958 CSO Basic Table and the 1980 CSO Basic Table.

Insurance Liability (Reserve) Balances

Insurance Liability (Reserve) Balances As of September 30, 2003

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$9,660	$185	$167	$10,012
USGLI	34	5	-	39
VSLI	1,493	11	33	1,537
S-DVI	404	2	156	562
VRI	396	2	6	404
VI&I	86	-	-	86
Subtotal	$12,073	$205	$362	$12,640
Less Liability not Covered by Budgetary Resources				(581)
Liability Covered by Budgetary Resources				$12,059

Insurance Liability (Reserve) Balances As of September 30, 2002

Program	Insurance Death Benefits	Death Benefit Annuities	Disability Income & Waiver	Reserve Totals
NSLI	$9,878	$201	$192	$10,271
USGLI	38	6	-	44
VSLI	1,466	12	36	1,514
S-DVI	399	2	132	533
VRI	410	2	7	419
VI&I	89	-	-	89
Subtotal	$12,280	$223	$367	$12,870
Less Liability not Covered by Budgetary Resources				(549)
Liability Covered by Budgetary Resources				$12,321

Insurance In-Force

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. Prudential and its reinsurers provided coverage to 5,901,345 and 5,910,381 insured for a face value of $725.8 billion and $728.3 billion as of September 30, 2003 and 2002, respectively. The face value of the insurance provided by Prudential and its reinsurers represents 97.4 and 97.3 percent of the total insurance in-force as of September 30, 2003 and 2002, respectively. The number of policies represents the number of active policies remaining in the program as of the end of each fiscal year.

	2003 Policies	2002 Policies	2003 Face Value	2002 Face Value
Supervised Programs				
SGLI Active Duty	1,548,000	1,510,000	$372,659	$365,285
SGLI Ready Reservists	775,500	799,500	174,171	180,826
SGLI Post Separation	87,000	97,000	20,512	23,016
SGLI Family - Spouse	990,000	1,013,000	96,215	99,578
SGLI Family - Children	2,100,000	2,100,000	21,000	21,000
VGLI	400,845	390,881	41,275	38,563
Total Supervised	5,901,345	5,910,381	$725,832	$728,268
Administered Programs				
NSLI	1,401,357	1,502,463	$14,802	$15,550
VSLI	220,719	227,341	2,566	2,604
S-DVI	154,537	148,913	1,484	1,414
VRI	62,696	67,531	556	587
USGLI	11,770	13,217	37	42
VMLI	2,793	3,060	176	186
Total Administered	1,853,872	1,962,525	$19,621	$20,383
Total Supervised and Administered Programs	7,755,217	7,872,906	$745,453	$748,651

Policy Dividends

The Secretary of VA determines annually the excess funds available for dividend payment. Dividends are based on an actuarial analysis of the individual programs at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. Policyholders can elect to: (1) receive a cash payment; (2) prepay premiums; (3) repay loans; (4) purchase paid-up insurance or (5) deposit the amount in an interest-bearing account. A provision for dividends is charged to operations, and an insurance dividend is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs. Policy dividends for fiscal years 2003 and 2002 were $551 and $604 million, respectively.

Sale of Prudential Stock

On December 18, 2001, Prudential completed its conversion from a mutual company to a stock company. As policyholder of the SGLI and VGLI programs, VA received 369,177 shares of Prudential stock. VA plans to liquidate these shares in six sales over a three-year period, starting in 2003. As of fiscal year end, VA has liquidated 123,000 shares of stock in two sales, which occurred in April and September of 2003. Proceeds of $4,142,360 from the sales have been deposited into the SGLI Contingency Reserve, which is held for VA by Prudential in an interest-bearing account. This guarantees that the monies will be used for the benefit of the servicemembers and veterans who are the intended recipients of these life insurance programs.

16. Contingencies

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice. Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than $2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 84 percent in FY 2003 and 77 percent in FY 2002. Contract dispute payments for FY 2003 and FY 2002 were $5.9 and $11.0 million, respectively.

VA has recorded a liability for pending legal claims that are estimated to be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was $528 million for FY 2003 and $625 million for FY 2002. There were 11 contract and personnel law cases with claimed amounts totaling $125.3 million where there was at least a reasonable possibility that a loss may occur. VA is also required to record an operating expense and imputed financing source for the Judgment Fund's pending claims and settlements. Judgment Fund accounting is shown below:

Judgment Fund For the Years Ended September 30,	2003	2002
Fiscal Year Settlement Payments	$ 92	$ 101
Less Contract Dispute Payments	(6)	(11)
Imputed Financing-Paid by Other Entities	86	90
Increase (Decrease) in Liability for Claims	(97)	187
Operating Expense (Revenue)	$ (11)	$ 277

It is the opinion of VA's management that resolution of pending legal actions as of September 30, 2003 will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases. Fiscal year 2003 settlement payments were $92 million.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 2003 and 2002 was $20.5 million and $111.3 million, respectively. Any payments due that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990.

VA provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of this amount cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the time period 2000-2003, the average medical care cost per year was $21.2 billion.

Under 38 U.S.C. 8161, *et seq.,* VA may enter into long-term (up to 75 years) leases of VA property in return for in-kind consideration including goods, services, or building space beneficial to VA's mission. As of 9/30/03, VA has entered into 30 enhanced-use lease agreements. Six of the projects use independent trusts, not funded by VA, to pay for capital and other improvements under the lease agreements.

17. Exchange Transactions

Exchange Revenues

VHA has legislated exceptions to the requirement to recover the full cost to the Federal Government of providing services, resources, or goods for sale. Under "enhanced sharing authority," VHA facilities may enter into arrangements that are in the best interest of the Federal Government. In FY 2002, randomly selected VA medical centers were reviewed by the Financial and Systems Quality Assurance Service to determine the facility's compliance with Statement of Federal Financial Accounting Standards No. 7 and the Chief Financial Officers Act of 1990.

VA's Loan Guaranty Program collects rental fees on a small number of properties during the period when the property is titled to VA.

NCA leases lodges at 11 cemeteries to not-for-profit groups for no fee. The not-for-profit groups are required to provide the upkeep on the lodges and pay the costs for utilities, insurance, minor repairs and maintenance and any other costs associated with the lodges, and NCA pays for major repairs at these facilities. NCA also has four agricultural leases with private companies/individuals. NCA leases land for growing crops and, on certain leases, receives various services in exchange from the lessee, such as brush cutting and removal services, backfilling and grading of roads, and welding services. In addition, NCA received fees for motion picture filming performed at three cemeteries.

Exchange Transactions with Public

Exchange transactions with the public occur when prices are set by law or executive order and are not based on full cost or on market price. VA's Medical Care Collections Fund, "Conforming Amendments," changed the language of specific sections of 38 USC Chapter 17 to substitute "reasonable charges" for "reasonable cost." The VHA Chief Financial Officer (CFO) is responsible for implementing and maintaining these reasonable charges for billing third-party payers for services provided to insured veterans for treatment of nonservice-connected conditions.

Reasonable charges are used to bill for reimbursable health insurance, non-Federal workers' compensation and no-fault or uninsured motorists insurance cases. Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA-billed charges or their usual customary and reasonable payment to other providers will be paid.

Cost-based per diems are calculated annually to produce tort rates used to bill for tort fees or, workers' compensation (other than Federal), humanitarian emergency, ineligible patient, VA employee, family member, allied beneficiary, no fault or

uninsured motorist's insurance, or reimbursable insurance cases. These per diem costs are derived primarily from cost and workload data from a national cost allocation report (Cost Distribution Report).

VA is required to collect a co-payment of $7 from veterans for treatment of a nonservice-connected condition for each 30-day supply of medication furnished on an outpatient basis. This fee does not cover the cost of the medications in the vast majority of cases.

VA's Loan Guaranty Program collects certain fees that are set by law. The loan guarantee funding fees collected for FY 2003 were $634 million and for FY 2002 were $523 million. The loan guarantee lender participation fees collected for FY 2003 were $1.9 million and for FY 2002 were $1.6 million.

Intragovernmental Exchange Transactions

This section discloses intragovernmental exchange transactions in which VA provides goods or services at a price less than the full cost, or does not charge a price at all, with explanations for disparities between the billing and full cost.

VA and DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health care resources based on the methodology agreed to by VA and DoD. Facility directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has determined that full cost recovery is not mandated. VHA captures the total amount of reimbursements received under DoD sharing agreements, but the total amount billed below full cost is not readily available. VHA is in the process of developing mechanisms to report this information in the future. VBA collects funding from DoD in order to administer certain education programs. DoD transferred $266.7 million during the year for the Post-Vietnam Era Education Assistance Program, Reinstated Entitlements Program for Survivors and the New GI Bill for Veterans.

When VA furnishes medical care or services for beneficiaries of other Federal agencies, and that care or service is not covered by an applicable local sharing agreement, the billing rates used are determined and published annually by the VHA CFO. Similar to the tort rates, interagency billing rates are determined from cost and workload data in the Cost Distribution Report.

18. Net Cost of Veterans Affairs Programs

All of VA's net program costs are part of the 700 budget functional classification (Veterans Benefits and Services).

Schedule of Net Program Cost

For the Year Ended September 30, 2003 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
Production Costs												
Intragovernmental Costs	$ 3,542	$ 30	$ 76	$ 139	$ 9	$ 8	$ 6	$ 816	$ 43	$ 56	$ 170	$ 4,895
Less Earned Revenues	(61)		(35)		(7)	(256)		(706)	(949)		(1,029)	(3,043)
Net Intragovernmental Production Costs	3,481	30	41	139	2	(248)	6	110	(906)	56	(859)	1,852
Public Costs	21,583	1,006	795	131,207	3,489	2,209	643	(991)	1,642	69	1,488	163,140
Less Earned Revenues	(1,592)		(10)			(221)		(107)	(645)		(47)	(2,622)
Net Public Production Costs	19,991	1,006	785	131,207	3,489	1,988	643	(1098)	997	69	1,441	160,518
Non-Production Costs												
Hazardous Waste Clean-up	104											104
Total Net Cost of Operations	$ 23,576	$ 1,036	$ 826	$ 131,346	$3,491	$1,740	$649	$ (988)	$ 91	$ 125	$582	$ 162,474

Schedule of Net Program Cost

For the Year Ended September 30, 2002 (Dollars in Millions)	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehab	Loan Guaranty	Insurance	Burial	Non-Program	Total
Production Costs												
Intragovernmental Costs	$ 2,898	$ 26	$ 62	$ 120	$ 8	$ 7	$ 5	$ 432	$ 6	$ 51	$ 63	$ 3,678
Less Earned Revenues	(43)	-	(8)	-	(10)	(235)	-	(563)	(995)	-	(637)	(2,491)
Net Intragovernmental Production Costs	2,855	26	54	120	(2)	(228)	5	(131)	(989)	51	(574)	1,187
Public Costs	20,524	993	771	179,473	3,227	1,781	499	438	1,746	951	1,289	211,692
Less Earned Revenues	(1,427)	-	(18)	-	-	(236)	-	(147)	(691)	-	(56)	(2,575)
Net Public Production Costs	19,097	993	753	179,473	3,227	1,545	499	291	1,055	951	1,233	209,117
Non-Production Costs												
Hazardous Waste Clean-up	11	-	-	-	-	-	-	-	-	-	-	11
Total Net Cost of Operations	$ 21,963	$ 1,019	$ 807	$ 179,593	$ 3,225	$ 1,317	$ 504	$ 160	$ 66	$ 1,002	$ 659	$ 210,315

19. Disclosures Related to the Statements of Budgetary Resources

Apportionment categories of obligations incurred

Obligations Years Ended September 30,	2003	2002
Category A, Direct	$ 29,252	$ 26,452
Category B, Direct	34,432	33,491
Reimbursable	4,434	3,303
Exempt from Apportionment	1,231	1,736
Total Obligations	$ 69,349	$ 64,982

Borrowing Authority

Loan Guaranty had borrowing authority of $1.3 billion and $3.8 billion as of September 30, 2003, and 2002, respectively. The Vocational Rehabilitation Program had borrowing authority of $3.5 and $2.8 million as of September 30, 2003 and 2002, for making direct loans. Loan Guaranty borrowing is repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and the sale of loans to Vinnie MAC trusts. The Vocational Rehabilitation loans generally had duration of 1 year, and repayment was made from offsetting collections.

Adjustments to Budgetary Resources

During the reporting period, adjustments to budgetary resources available at the beginning of the year included VA appropriations that were subjected to a rescission that totaled $16 million. Various VA program accounts received a cut in discretionary budget authority.

Permanent Indefinite Appropriations

VA has three permanent and indefinite appropriations. The Veterans Housing Benefit Program Fund covers all estimated subsidy costs arising from post-1991 loan obligations for veterans housing benefits. The Fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families. The Loan Guarantee Revolving Fund is a liquidating account that contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to financing accounts. The Native American Direct Loan Account was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

Use of Unobligated Balances of Budget Authority

Available unobligated balances on the Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts, which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 2002 use.

Unobligated VA funds are available for uses defined in VA's FY 2002 Appropriation Law (P.L. 108-7). These purposes include: veterans medical care, research, education, construction and maintenance of VA buildings, veterans and dependents benefits, veterans life insurance, loan guaranty programs, veterans burial benefits, and administrative functions. Various obligation limitations are imposed on individual VA appropriations. Examples include travel obligation limitations and limitation of the use of medical care multi-year funds to object classes for equipment, structures, and land.

Explanation of Differences Between Statement of Budgetary Resources and the Budget

As a result of an analysis of aged obligations, obligations were reduced by $90 million on the Statements of Budgetary Resources for both FY 2003 and FY 2002. These adjustments were not reflected in the FACTS II data used to prepare the President's Budget. No other differences were identified as of the preparation date of the financial statements.

Contributed Capital

The amount of contributed capital received during the fiscal year consisted of donations in the amount of $42 million to the General Post Fund and $0.8 million to the National Cemetery Gift Fund.

20. Disclosures Related to the Statements of Financing

The Statement of Financing section "Costs That Do Not Require Resources in the Current Period" includes only the fiscal year increases in liabilities not covered by budgetary resources. For existing liabilities, there will always be a difference between this section and the value of liabilities not covered by budgetary resources disclosed in Note 10 and included in the liabilities section of the Balance Sheet.

21. Dedicated Collections

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term "trust funds" as used in this report and in Federal budget accounting is frequently misunderstood. In the private sector, "trust" refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term "trust fund" means only that the law requires that funds be accounted for

separately, used only for specified purposes and that the account be designated as a "trust fund."

A change in law may change the future receipts and the terms under which the fund's resources are spent. The "trust fund assets" represent all sources of receipts and amounts due the trust fund regardless of source. This includes "related governmental transactions," which are transactions between two different entities within the Federal Government. The "Investments with Treasury" assets are comprised of investments in Federal debt securities and related accrued interest. These securities will require redemption if a fund's disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g., Federal debt securities).
The table below summarizes the name, type, and purpose of the funds within VA that receive dedicated collections. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed also adhere to the requirements of FASB No. 120, "Accounting and Reporting by Mutual Life Insurance Enterprise," and issue a separate annual report. All of the funds generally receive authority to use current year contributions as well as a portion of previously contributed amounts.

Fund Name	Fund Type	Treasury Symbol	Authority	Purpose of Fund	Financing Sources
Medical Care Collections Fund	Special	36x5287	P.L. 105-33 111 Stat 665	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
Health Service Improvement Fund	Special	36x5358	P.L 106-117 113 Stat 1561	Accumulates recoveries from enhanced use leases and patient co-payments.	Public.
Escrowed Funds for Shared Medical Equipment Purchases	Deposit	36x6019	106 STAT. 1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceuticals & other medical organizations.
Personal Funds of Patients	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public, patients.
Employee Allotments for Savings Bonds	Deposit	36x6050	31 U.S.C. 3105	Temporarily holds funds.	Employees.
Cemetery Gift Fund	Trust	36x8129	38 U.S.C. 1007	Receives donations for veteran cemeteries.	Public donors.
National Service Life Insurance Fund	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	Public, veterans.
Post-Vietnam Era Education Assistance Program	Trust	36x8133	38 U.S.C. 1622	Subsidizes the cost of education to veterans.	Veterans, DoD.
U.S. Government Life Insurance	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public, veterans.
Veterans Special Life Insurance Fund	Trust	36x8455	38 U.S.C. 723 101-228	Premiums insure Korean conflict veterans without Service-related disabilities.	Public, veterans.
General Post Fund, National Homes	Trust	36x8180	38 U.S.C. 101-228	Receives restricted and unrestricted use donations	Public, mostly veterans.

The following tables provide condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances:

For the year ended 2003 Fund Symbol Assets:	5287	5358	6020	8132	8133	8150	8455	8180	Total
Fund balance with Treasury	$ 86	$ 31	$ 43	$ 9	$ 77	$ -	$ 1	$ 2	$ 249
Investments with Treasury	-	-	-	11,430	-	57	1,886	63	13,436
Other Assets	483	101	-	594	1	2	112	18	1,311
Total Assets	569	132	43	12,033	78	59	1,999	83	14,996
Liabilities:									
Payables to Beneficiaries	-	-	-	131	1	2	10	1	145
Other Liabilities	-	-	43	11,593	-	55	1,920	2	13,613
Total Liabilities	-	-	43	11,724	1	57	1,930	3	13,758
Net Position:									
Cumulative Results	569	132	-	309	77	2	69	80	1,238
Total Liabilities & Net Position	$ 569	$ 132	$ 43	$ 12,033	$ 78	$ 59	$ 1,999	$ 83	$ 14,996

For the year ended September 30, 2003 Fund Symbol	5287	5358	8132	8133	8150	8455	8180	Total
Revenues:								
Exchange - Federal	$ (19)	$ -	$ 770	$ -	$ 4	$ 142	$ -	$ 897
Exchange - Public	805	447	510	1	-	75	1	1,839
Non-Exchange - Federal	-	-	-	-	-	-	-	-
Non-Exchange - Public	-	-	-	-	-	-	-	-
Total Revenues	786	447	1,280	1	4	217	1	2,736
Expenses:								
Program Expenses	55	17	1,299	4	4	218	34	1,631
Total Expenses	55	17	1,299	4	4	218	34	1,631
Net Change from Operations								
Beginning Net Position	910	104	327	80	2	70	79	1,572
Total Financing Sources	(1,072)	(402)	1	-	-	-	34	(1,439)
Change in Accounting Policy	-	-	-	-	-	-	-	-
Net Cost of Operations	731	430	(19)	(3)	-	(1)	(33)	1,105
Ending Equity	$ 569	$ 132	$ 309	$ 77	$ 2	$ 69	$ 80	$ 1,238

Independent Auditor's Report

Department of Veterans Affairs

Office of Inspector General

REPORT OF THE AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2003 AND 2002

Report No. 03–01237-21

November 14, 2003

VA Office of Inspector General

DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Secretary

Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2003 and 2002

1. Attached is the Report of Audit of the Department of Veterans Affairs (VA) Consolidated Financial Statements (CFS) for Fiscal Years (FY) 2003 and 2002. The Chief Financial Officers Act of 1990 requires this audit. The OIG contracted with the independent public accounting firm Deloitte & Touche LLP to perform the audit of VA's FY 2003 CFS.

2. The independent auditors' report by Deloitte & Touche LLP provides an unqualified opinion on VA's FYs 2003 and 2002 CFS. The report on internal control identifies four reportable conditions, of which two are material weaknesses. The two material weaknesses are (i) information technology security controls and (ii) integrated financial management system. The two reportable conditions are (i) operational oversight, and (ii) medical malpractice claims data. Three of the four findings were reported last year; the medical malpractice claims data is the new reportable condition for FY 2003. During FY 2003, VA management has taken corrective action to eliminate the following two reportable conditions reported in the FY 2002 audit report: (i) loan guaranty business process, and (ii) application program and operating system change controls.

3. The report on compliance with laws and regulations continues to conclude that VA is not in substantial compliance with the financial management system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. The internal control issues concerning an integrated financial system and information technology security controls indicate noncompliance with the requirements of Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems," which incorporates by reference OMB Circulars A-123, "Management Accountability and Control," and A-130, "Management of Federal Information Resources."

4. The material weakness and FFMIA noncompliance issues concerning VA's financial management systems underscore the importance that VA must continue its efforts to implement a replacement integrated core financial management system. The auditors' unqualified opinion was achieved through the extensive efforts of program and financial management staff, as well as the auditors, to overcome material weaknesses in internal control to produce auditable information after the fiscal year-end. Although these efforts resulted in materially correct annual financial statements, reliable information was not readily available during the year. The risk of materially misstating financial information remains high with the existing financial management systems.

5. The independent auditors will follow up on these internal control findings and evaluate any corrective actions during the audit of the Department's FY 2004 Consolidated Financial Statements.

6. VA is to be congratulated for its remarkable accomplishment in accelerating the issuance of its audited financial statements by November 15, 2003, while maintaining an unqualified audit opinion. This accomplishment is achieved well in advance of the January 31, 2004 deadline established by the Office of Management and Budget (OMB). With the success in accelerating the FY 2003 financial statement audit, VA is on target to meet the OMB required November 15 due date for FY 2004 audited financial statements.

MICHAEL SLACHTA, JR
Assistant Inspector General for Auditing

Attachment

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Secretary
Department of Veterans Affairs

We have audited the accompanying consolidated balance sheets of the Department of Veterans Affairs (VA) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, financing and the combined statements of budgetary resources for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of the management of VA. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the requirements of Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and the OMB Bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of VA as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2003, on our consideration of VA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

VETERANS DAY, 11:00 AM
November 11, 2003

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Secretary
Department of Veterans Affairs

We have audited the financial statements of the Department of Veterans Affairs (VA), as of and for the year ended September 30, 2003, and have issued our report thereon dated Veterans Day, November 11, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements", as amended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered VA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risks, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect VA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We identified the following matters involving the internal control over financial reporting and operations that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our prior year report dated December 16, 2002 are identified as repeat conditions. The material

weaknesses and the reportable conditions are categorized under the headings Information Technology and Operations.

Four reportable conditions are described in the following paragraphs and include significant departures from certain requirements of OMB Circular A – 127, "Financial Management Systems," which incorporates by reference Circulars A – 123, "Management Accountability and Control," and A – 130, "Management of Federal Information Resources," among other requirements. We believe that the two reportable conditions identified as "Information Technology (IT) Security Controls" and "Integrated Financial Management System," are also material weaknesses.

INFORMATION TECHNOLOGY

Information Technology (IT) Security Controls – Material Weakness

(Repeat Condition)

During fiscal year 2003, VA made organizational changes in the information technology area that facilitated IT security controls improvements through centralization of certain information technology controls initiatives. Application program offices have also initiated corrective actions to remediate material weaknesses reported in the prior year internal control report. However, VA's program and financial data continue to be at risk due to serious weaknesses related to the VA's implementation and enforcement of controls and oversight over access to and recovery of its information systems. These weaknesses placed sensitive information, including financial data and veterans' medical and benefit information, at risk of inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, possibly occurring without detection. The VA Office of Inspector General (OIG) first reported this condition in its fiscal year 1997 audit report and made recommendations for VA to implement a comprehensive security program that would improve these controls. VA has acknowledged these weaknesses and first reported IT security controls as a material weakness in its Federal Managers' Financial Integrity Act (FMFIA) report for fiscal year 1998.

Our testing of key controls over security administration for the general computer systems at VA's primary data centers and fourteen medical facilities, as well as the payroll system (Personnel and Accounting Integrate Data – PAID), and the Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP) and the OIG's testing for Federal Information Security Management Act (FISMA) reporting identified the following control weaknesses. The systems control weaknesses are summarized below:

- For general computer systems including network, operating systems and databases, the control weaknesses included inconsistent implementation of network access authentication mechanism and administration of user access at medical centers; inadequate accountability through sharing of generic administrator accounts; inappropriate access privileges due to non-restrictive system and database access profiles for internal operations and programming staff, and inconsistent monitoring and review of user access.

- In the PAID and IFCAP applications, we identified security weaknesses including improper design of system controls to support segregation of duties, inappropriate

access privileges and inadequate management of access privileges, and inadequate segregation of duties.

- Continuity of Operations Plans (COOPS) at certain medical centers and medical facilities has not been fully tested. A business continuity plan at the VA's level has not been fully developed to provide overall guidance, directions and coordination.

These weaknesses increase the risk of unauthorized or erroneous data transfer, and inability to fully recover production programs and data, resulting in unreliable data that are used for VA's financial reporting.

VA's success in improving information security is dependent on VA's continuing effort in comprehensively addressing these weaknesses at an enterprise level, including continuing its high level of commitment and obtaining adequate resources to implement the plan.

Recommendation

We reaffirm our prior year recommendations and the OIG's recommendation in the FISMA report that VA:

1. Apply appropriate resources and accountability mechanisms in order that the planned actions be accomplished within an acceptable timeframe and will remediate the deficiencies identified in the IT Security Certification and Accreditation (C&A) and FISMA process.

2. Communicate and implement standardized information systems security administration policies and procedures, improve information systems security and segregation of duties controls over general systems and key financial applications such as the PAID and IFCAP systems, and assign, communicate, and coordinate responsibility for monitoring and enforcing such controls in a consistent fashion throughout VA.

3. Develop a business plan at the VA level that will facilitate effective communication and implementation of overall guidance and standards, and provide coordination of VA's business continuity effort to ensure that timely resumptions of normal business operations can be accomplished.

OPERATIONS

Integrated Financial Management System – Material Weakness

(Repeat Condition)

As defined in OMB Circular A – 127, "a financial management system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions." Such financial management systems shall be designed to provide for an effective and efficient interrelationship between software, hardware, personnel, procedures, controls, and data contained within the systems.

With respect to system requirements in the area of financial reporting, OMB Circular A – 127 provides that an agency's financial management system should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements. Within OMB Circular A – 123, the management control processes necessary to ensure that "reliable and timely information is obtained, maintained, reported and used for decision making" are set forth, including prompt and appropriate recording and classification.

During our audit of VA's consolidated financial statements, we noted continuing difficulties related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of VA's consolidated financial statements. Significant efforts were made at the component and consolidated levels to assemble, compile, and review the necessary financial information for annual financial reporting requirements. However, in many cases, significant manual work-arounds and out-of-date feeder systems were still in place, as VA had not yet completed its transition to a fully integrated financial management system. Some manual controls were not effective to ensure the quality and accuracy of data in an information system. For example, we noted that:

- In the Veterans Health Administration (VHA), some medical centers were not performing account reconciliations on a consistent basis and assets were not capitalized in a timely manner.

- VBA Management identified 8,575 direct loans (15% reduction from fiscal year 2002) that were not correctly amortized for subsequent loan modifications resulting in an unpaid principal balance of $37.0 million on their scheduled maturity dates. VBA management provided a detailed analysis of the loans. Management asserted that the likely unpaid balance of direct loans that would reach maturity for which VA would have limited recourse would be approximately $1.6 million.

Given the size and complexity of the VA, as well as the current status of the system development and implementation cycles for planned improvements, it is critical that enhanced control, monitoring and reconciliation processes be in place and functioning appropriately throughout the year to ensure accurate and complete financial reporting.

Recommendation

4. We affirm our prior year's recommendation that even though fully automated processes may not yet be in place, supplemental manual processes should be implemented and enforced to meet appropriate control objectives.

5. Account reconciliations need to be performed on a more consistent basis to ensure the quality and accuracy of the financial data.

Operational Oversight

(Repeat Condition)

During our audit, we conducted site visits to selected VA medical centers or stations to test compliance with identified control and reconciliation processes. We continued to note a number

of previously reported instances where application of control and reconciliation processes were not performed consistently or completely. If the condition existed at over 25% of the sites, then we deem the condition to be significant noncompliance. In several instances, existing Department procedures for supervisory review were not applied consistently or timely. Examples include instances where medical centers were not adequately billing some medical services to patients with third party insurance. Individuals had multiple obligation and payment authority. This precluded a proper separation of duties. We frequently observed ineffective or inefficient processes in the areas of property, plant and equipment; medical accounts receivable; and accounts payable during our site visits.

Recommendation

6. We reaffirm our prior year's recommendation that procedures for appropriate and timely management reviews, separation of duties and account reconciliations be formalized and implemented to achieve improved internal control over financial reporting. VHA Management should improve the monitoring of existing policies and procedures implemented.

Medical Malpractice Claims Data

The Office of General Counsel (OGC) did not adequately review the medical malpractice and tort claims data from the claims reporting system for completeness and accuracy. Multiple errors were detected in data submitted to outside actuarial specialists. Consequently, the specialists received several versions of claims data to calculate the actuarial valuation of the medical malpractice liability as of September 30, 2003. The following items were noted:

- Early in fiscal year 2003, OGC completed the installation of GCLAWS, a claims tracking system, at the 23 Regional Counsel offices. GCLAWS replaced the Regional Council Management Information System (RCMIS). During a reconciliation of the GCLAWS and RCMIS paid medical malpractice claims data as of September 30, 2002, an outside consultant identified an $11 million difference. OGC's detailed review of the difference determined that paid claims data was not recorded in the RCMIS prior to extracting data for GCLAWS.

- In addition, the contract actuaries determined the reserve estimate was understated by approximately 4% ($18.6 million) as of September 30, 2002.

- Based on the paid medical malpractice claims data in GCLAWS, the consultant initially calculated the loss paid data as of September 30, 2003 incorrectly and provided the information to the contract actuaries. Our reconciliation of the paid loss detail to the report showed a $12 million difference. A review of the difference by the consultant determined the paid loss data for five accident years was incorrectly calculated.

Recommendation

7. We recommend that OGC management validate data sent to outside consultants in order to reduce the occurrence of error due to completeness and accuracy. This process will increase the timeliness and accuracy of the valuation.

Follow-up on Previous Report

In our report in connection with the fiscal year 2002 VA financial statements dated December 16, 2002, we reported five reportable conditions (with two material weaknesses) in the areas of (1) Information Technology (IT) Security Controls, (2) Application Program and Operating System Change Controls, (3) Integrated Financial Management System, (4) Loan Guaranty Business Process and (5) Operational Oversight. The material weaknesses repeated in fiscal year 2003 are items (1) and (3). Item (5) remains as a reportable condition in fiscal year 2003.

* * * * *

With respect to the internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such controls.

In addition, we considered VA's internal control over Supplementary Information by obtaining an understanding of VA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

COMPLIANCE

VA management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether VA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants; noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and are described below.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U. S. Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance and evaluative criteria included in OMB Circular A - 127.

The material weaknesses in internal control over financial reporting discussed above and identified as "Integrated Financial Management System" and "Information Technology (IT) Security Controls", indicate that VA is not in full compliance with the requirements of OMB Circulars A – 123, A – 127, and A - 130. As discussed above, we found material weaknesses in (1) the design and operation of internal controls over financial reporting, particularly with

effectiveness of the control, monitoring and reconciliation processes in support of the preparation of the Department's consolidated financial statements, given the status of the transition to a fully integrated financial management system; and (2) the effectiveness of the information technology security controls.

We believe these material weaknesses, in the aggregate, result in departures from certain of the requirements of OMB Circulars A – 123, A – 127 and A - 130, and are, therefore, instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

In addition, we noted other matters involving the internal control and compliance over financial reporting that we have reported to management of the VA in a separate letter dated Veterans Day, November 11, 2003.

DISTRIBUTION

This report is intended solely for the information and use of the Office of Inspector General of the Department of Veterans Affairs, the management of the Department of Veterans Affairs, the Office of Management and Budget, the U. S. General Accounting Office, Office of the President and the U. S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

VETERANS DAY, 11:00 AM
November 11, 2003

Department of Veteran's Affairs

Memorandum

Date: NOV 10 2003

From: Assistant Secretary for Management (004)

Subj: Report of Audit of the Department of Veterans Affairs Consolidated Financial Statements for Fiscal Years 2003 and 2002

To: Assistant Inspector General for Auditing (52)

We have reviewed the Report of the Office of Inspector General Audit for Fiscal Years 2003 and 2002 and are pleased with receipt of an unqualified opinion. We are especially proud that we were able to meet the Fiscal Year 2004 timeframe requirements established by the Office of Management and Budget one year ahead of schedule. Please extend to your staff, and the staff of Deloitte & Touche, LLP, our appreciation for their detailed planning, hard work and cooperation during this year's audit.

We will share the results of the audit, as well as the findings on internal controls over financial reporting and regulatory compliance, with senior officials in VA Administrations and with other VA staff and program managers. We will continue to provide you with updates on our progress in implementing management plans to correct the two material weaknesses, Integrated Financial Management System and Information Technology Security Controls.

Thank you again for your efforts in bringing us to another successful conclusion of the audit cycle. If you have any questions, please contact me at 273-5589.

for William H. Campbell

Major Management Challenges

Identified By VA Office of Inspector General

The Office of Inspector General (OIG) has implemented a strategic planning process designed to identify and address the key issues facing VA. These issues, which include health care delivery, benefits processing, procurement, financial management, and information management, are presented in the OIG Strategic Plan 2001-2006. The following summarizes the most serious management problems facing VA in each of these areas, and assesses the Department's progress in addressing them. While these issues guide our oversight efforts, we continually reassess our goals and objectives to ensure that our focus remains relevant, timely, and responsive to changing priorities. (On these pages, the words "we" and "our" refer to the OIG.)

As we strive to provide the highest quality benefits and services to our Nation's veterans, we realize we have many program and management challenges to overcome. Following are descriptions of our major challenges as identified by the VA Office of Inspector General and the General Accounting Office along with the VA program's response. (In this report, years are fiscal years unless stated otherwise.)

OIG1. HEALTH CARE DELIVERY

In recent years, the Veterans Health Administration (VHA) restructured health care delivery to emphasize managed care through an extended network of community-based outpatient clinics and ambulatory care settings. This transition has raised new issues concerning the utilization of facilities and the allocation of resources. Providing safe, high quality medical care, reasonable waiting times, and accessibility to care are just some of the fundamental delivery of service issues that present challenges on a continuous basis.

Opening VA health care to nonservice-connected veterans created an unprecedented increase in demand for VHA, leading to inordinately high waiting times and insufficient resources. The political leadership in both the legislative and executive branches should confront this reality and codify the long-term health care benefits that will be provided to our Nation's veterans, and fund them accordingly. VHA needs to continue the trend of increasing revenue growth from non-appropriated sources and pursue every avenue possible to maximize the economy and efficiency of its programs and activities. The following issues present major challenges and opportunities to do just that.

1A. OIG ISSUE - VETERANS' EQUITABLE RESOURCE ALLOCATION (VERA)

In August 2001, OIG issued the report *Audit of Availability of Healthcare Services in the Florida/Puerto Rico Veterans Integrated Service Network 8* (Report No. 99-00057-55). We found that VHA did not include or consider the workload of Priority Group 7 (nonservice-connected/noncomplex care) veterans in the VERA system. Accordingly, resource allocation decisions did not include all veterans who are enrolled for care and treated. We recommended that VHA include this workload in the VERA model.

Although VHA stated that inclusion of Priority 7 veterans in the VERA model would be a step toward better alignment of VHA's actual enrollment experience, it decided in January 2003 not to include them in the VERA model for 2003. The VA Secretary sustained that decision, based on concerns that including Priority 7 veterans would create financial incentives to seek out more Priority 7 veterans instead of veterans who comprise VA's core health care mission: veterans with service-connected disabilities, incomes below the income threshold, or special needs (e.g., homelessness). VA did not want to encourage unmanageable growth. We believe the Department should reassess the decision to exclude this group of veterans from its resource model.

VA'S PROGRAM RESPONSE

While the Secretary decided not to include basic care Priority Group 7 patients in the 2003 VERA allocations, other refinements to the VERA model addressed pressing issues identified by the GAO and the RAND

Corporation and improve the equity of resource allocation among VHA's networks. As such, VHA will continue allocation based on this decision.

1B. OIG ISSUE - CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES (CARES)

In October 2000, VHA implemented the CARES program to assess health care needs in VISNs and guide the realignment and allocation of capital assets supporting delivery of health care services. According to VHA, CARES will improve access and veteran satisfaction, and improve the delivery of health care in the most accessible and cost-effective manner while minimizing any adverse impacts on staffing. In doing this, VHA faces the dual challenges of ensuring access to world-class care as demographics change and converting VA's under-performing facilities into productive assets. In May 2003, GAO also reported on VA's large portfolio of aged, inefficient buildings, concluding that VA needs to find ways to minimize the resources devoted to these unneeded inpatient buildings.

VA'S PROGRAM RESPONSE

The CARES program is fully engaged in implementing the Secretary's programmatic goals and objectives outlined in the nine-step CARES process. The draft national CARES plan was delivered to the CARES Commission on August 4, 2003.

The Commission is expected to carefully consider the views and concerns of all stakeholders during a public review and comment period. In the draft plan, solutions are recommended to mitigate the numerous infrastructure, patient care, and access to care issues identified by GAO and OIG. The majority of solutions resulted in realigning the current delivery of veterans' services to locations where they are projected to reside. Recommendations in the plan resulted in the following planning initiatives: capacity (workload); access (driving time precept); efficiency/quality (vacant space, small facilities, proximity, realignments, consolidations); and special disability programs (spinal cord injury and blind rehabilitation). To qualify as a planning initiative, solutions must be supported by a 2022 projected workload demand. When workload falls off after 2012 projections, solutions are to be considered temporary (contracting out, short-term leases).

1C. OIG ISSUE - PART-TIME PHYSICIAN TIME AND ATTENDANCE

Since 2000, OIG substantiated 15 allegations received by the OIG Hotline regarding time and attendance violations by VA physicians. Additionally, our Combined Assessment Program (CAP) reviews[1] assessed physician time and attendance issues at 43 facilities and identified deficiencies at 24 locations. In 2003 we audited VHA's management of part-time physician time and attendance, physician productivity in meeting employment obligations, and physician-staffing requirements. Our April 2003 report, *Audit of VHA's Part-Time Physician Time and Attendance* (Report No. 02-01339-85), identified VA physicians who were not present during their scheduled tours of duty, were not providing VA the services obligated by their employment agreement, or were "moonlighting" on VA time. We concluded that VA medical center (VAMC) managers did not ensure that part-time physicians met employment obligations, and that VAMCs did not perform workload analyses to determine the number of FTE needed or evaluate their hiring alternatives (such as part-time, full-time, intermittent, or fee-basis).

VA'S PROGRAM RESPONSE

The Deputy Under Secretary for Health for Operations and Management addressed this concern in a number of ways: October 2002, guidance was issued to field facilities on time and attendance best practices; December 2002, certification required that timekeepers had received refresher training and that part-time physicians understood VA's attendance policies and procedures; January 2003, directive issued outlining the responsibilities of employees and VHA management officials involved in ensuring compliance with time and attendance policies and procedures.

In addition, VHA is reviewing new policies and procedures to require part-time physicians on adjustable work hours to enter into service agreements that outline the level and type of service expected; approval is anticipated by December 31, 2003. The new requirements direct Facility Directors to review vacant positions to determine whether the appointment type is appropriate and to establish procedures for documenting the time and attendance of these physicians. Also, VHA is establishing monitors related to the supervision of time and attendance and developing an

[1] Through this program, auditors, investigators, and health care inspectors collaborate to assess key operations and programs at VA health care systems and VA regional offices on a cyclical basis.

Intranet/Internet training course on time and attendance for employees, managers, and timekeepers. VHA is currently piloting a swipe card scanner technology as a possible means of monitoring part-time physician time and attendance. Results of the pilot will be assessed by the end of the first quarter of 2004. A physician staffing and productivity workgroup is finalizing proposed guidance on primary care (called the Primary Care Management Model). Approval is anticipated by November 2003. The group is currently reviewing specialty care.

1D. OIG ISSUE - PHYSICIAN STAFFING GUIDELINES

We performed an audit to evaluate management of physician staffing and the equity of the distribution of physician resources among VAMCs. The audit found significant staffing disparities among VAMCs with similar missions and levels of medical school affiliation. These disparities were not explained by the time physicians allocated to patient care, education, or research; the number of residents or physician extenders; or differences in acuity or complexity of care. These conditions occurred in part because VHA has not established physician-staffing guidelines. We recommended that VHA develop a benchmarking process for physician staffing and set goals to encourage VAMCs to adjust staffing levels based on the most efficient medical centers. This would have permitted the better use of about 2,000 physician full-time equivalent (FTE) employees with associated costs of $181 million. VA did not concur with our recommendations or monetary estimate and has not yet established staffing standards required by Public Law 107-135. These issues remain unresolved.

VA'S PROGRAM RESPONSE

VHA is in the process of developing a physician productivity model for four key outpatient areas: primary care, urology, cardiology, and ophthalmology. The directive for primary care staffing and productivity model is in the concurrence process. The other clinic models will be ready for testing in the fall. Our objectives are to develop productivity standards and identify staffing levels that accurately address workload demands while reducing costs through productivity increases. The model will be applied to part-time as well as full-time physicians. In developing the model, VHA is carefully considering such factors as VA/private sector productivity comparisons, management style, relationships between patient complexity and staffing assignments, physician incentives, availability of capital assets, scope of physician activities, and costs. Although not all of these factors will be in the model for initial testing, they will be incorporated once additional information is obtained from surveys and data systems. From this work, VHA plans to develop productivity standards and identify staffing levels that accurately address workload demands. The model may be applied beyond the four areas at a future date.

1E. OIG ISSUE - QUALITY MANAGEMENT (QM)

Although VHA managers are vigorously addressing the Department's QM and patient safety procedures in an effort to strengthen patients' confidence, issues remain. OIG and General Accounting Office reviews in the 1990s found that managers needed to improve efforts for collecting, trending, and analyzing clinical data. From October 2001 through September 2002, we conducted QM reviews at 20 VA health care facilities during CAP reviews. While we found improvements in QM programs, we also found that senior managers and QM program coordinators did not consistently compare their results with external standards, benchmarks, or national goals, and did not sufficiently ensure successful implementation of recommended QM actions in all areas reviewed. We made recommendations to the Department to address these issues.

We acknowledge that VHA has made progress and continues to focus on QM issues. However, our inspection results have shown that policies and procedures designed to safeguard patients are not always followed. The human factor disrupts the safeguards. For example, nursing employees have bypassed safeguards built into the Bar Code Medication Administration system, resulting in serious medication errors. The Computerized Patient Record System does not as yet contain all of the relevant clinical data needed, and providers may not enter clinical information. Since high-quality, safe patient care is VHA's primary objective, we believe that QM and patient safety should remain among VA's most significant management challenges.

VA'S PROGRAM RESPONSE

VHA has been working diligently to address all health care performance issues identified by the OIG. For all health care performance indicators where comparable data are available, VA outcomes exceed best-reported performance in 2002 of managed care organizations, governmental sources, and population-based surveys. In regard to VA's credentialing process, everyone who is currently practicing is fully credentialed by VA with 75 percent of those credentialed to be included in VetPro,

VHA's electronic credentialing process, by the end of 2003.

VHA continues to work with other relevant offices within VA Central Office, such as the Medical Inspector's Office and the Deputy Undersecretary for Operations and Management, to ensure quality and patient safety. Beginning in 2003, VHA, in concert with the National Center for Patient Safety, developed a new patient safety project to ensure that the software for VA's Bar Code Medication Administration, the Computerized Patient Record System, and Imaging are kept up-to-date. Reducing the incidence of system circumvention or workarounds either when scanning a patient's wristband or medications was identified as one of the goals of the VHA-sponsored Collaborative Breakthrough Series Project. The outcomes of this project will result in global lessons to be used throughout VHA. In addition, VHA established an official patient safety measure, which has demonstrated a dramatic improvement in the first two quarters of 2003 from the 2002 baseline data. Given VHA's progress and continued emphasis on quality management, we believe this issue should be reconsidered as a major management challenge.

1F. OIG ISSUE – LONG-TERM HEALTH CARE

VHA established several programs to provide long-term health care to aging veterans. The OIG found that serious challenges continue to exist. For example, in 2003 we completed reviews of VHA's Community Nursing Home (CNH) Program and Homemaker/Home Health Aide (H/HHA) Program. We identified several issues warranting VHA's attention. While VHA has contracted with CNHs to provide care for aging veterans, it has taken years to implement standardized monitoring /inspection procedures, as noted in our December 2002 report *Healthcare Inspection – Evaluation of the Veterans Health Administration's Contract Community Nursing Home Program* (Report No. 02-00972-44). This has caused VA facilities to be inconsistent in overseeing the care and service provided to veterans residing in community facilities. We made recommendations to further clarify and strengthen the VHA CNH oversight process and to reduce the risk of veterans in CNHs from adverse incidents. The Under Secretary for Health is currently implementing an action plan that is responsive to our recommendations.

We found VHA's H/HHA Program also needed improvements. Our summary evaluation of this program shows that 14 percent of patients receiving H/HHA services in our sample did not meet clinical eligibility requirements. Some patients were not in need of care. Other patients only needed supervision but were not dependent on assistance with their daily living requirements. Facilities were not using benchmark nursing home per diem rates as prescribed by policy. We met with VHA's Geriatrics and Extended Care group to discuss the draft report in September 2003. We estimate that had benchmark rates with Medicare/Medicaid been used, VHA could have saved an estimated $10.7 million annually.

VA'S PROGRAM RESPONSE

VHA has devised a new strategy to provide needed policy direction on reimbursement for skilled home care, homemaker/home health aide. VHA questions the $10.7 million annual savings OIG calculated in regard to using Medicare/Medicaid rates. VHA requested to meet with OIG during the fourth quarter of 2003 to recalculate the monetary benefits by reassessing the assumptions used in arriving at their data on this issue. The H/HHA directive and revised handbook are expected to be published in March 2004 to clarify clinical eligibility requirements and benchmarking rates. The Geriatrics and Extended Care Strategic Planning Group held a national conference call with managers to discuss the need to strengthen oversight of the long-term care programs and services. Follow-up from this call will be provided to the participants in writing in September 2003. Until the H/HHA policy for reimbursement for skilled home care is issued, the Office of Geriatrics and Extended Care in the VHA Central Office is coordinating with the Network directors to ensure that the payments for H/HHA are within the established Medicare and Medicaid-based ratio. This is being carried out through the geriatrics monthly conference calls to the Networks and alert messages to the Networks, informing them of any changes in benchmark rates or clinical eligibility.

In June 2002, VHA published a comprehensive oversight policy document that establishes a national standard for annual reviews of community nursing homes and monthly visits by VA staff to patients in these homes. This is being certified at a national level. By the end of 2003, VHA expects to complete the implementation of a 25-point plan to further refine VHA's oversight efforts of the community nursing home programs. VHA continues expanding the education and training of its staff related to the new policy on CNH oversight through weekly teleconferences to VA medical centers, satellite broadcasts, and Web-based training modules.

1G. OIG ISSUE - SECURITY AND SAFETY

In the aftermath of the September 11 terrorist attacks, we reviewed the adequacy of security and inventory controls over selected biological, chemical, and radioactive agents owned by or controlled at VA facilities. In our March 2002 report, *Review of Security and Inventory Controls over Selected Biological, Chemical and Radioactive Agents Owned by or Controlled at Department of Veterans Affairs Facilities* (Report No. 02-00266-76), we found that security measures to limit physical access to research facilities, clinical laboratories, and other high-risk or sensitive areas varied significantly. VHA's inventories of these substances were incomplete or inadequate. Some VA facilities needed to update their disaster preparedness plans. Although actions are in process, only one recommendation has been closed to date.

We continue to work with VHA, the Office of Policy, Planning, and Preparedness, and other VA officials regarding the recommendations that remain open. The following examples are some of the issues needing resolution before we can close the report's recommendations. Guidance concerning our recommendations to strengthen purchasing, inventories, transfer, and destruction processes was specifically addressed for research laboratories in VHA Directive 2002-075. However, VHA has not established formal policy applicable to clinical laboratories or other sites in facilities, beyond instructions and recommendations informally provided by Patient Care Services. Integration of guidance and direction provided by all VA officials on these security and safety issues would increase uniformity and reduce varying practices in the field.

We are seeking assurances that other facilities do not have additional, unaddressed and unfunded security vulnerabilities. We are following up to confirm that medical centers are in compliance with developing emergency management programs. VA directives or other formal policies are still needed to provide specific guidance to field facilities regarding non-citizens. Confirmation is needed that all non-citizens who have accessed facility areas with select agents or other sensitive materials (such as those outlined in the Attachment to VHA Directive 2002-075) have been determined to have legal status in this country, including regular reviews and updated processes for monitoring the status of non-citizens.

VA'S PROGRAM RESPONSE

Significant progress has been made on all of the OIG recommendations, although they have not been closed by the OIG. VHA has completed its comprehensive inventory of all research laboratories. All VA research laboratories that use or store live organisms, with the exception of one for which the registration application is being processed, possess appropriate registration from the Centers for Disease Control and Prevention (CDC). In addition, VHA completed an extensive inventory of all clinical laboratories and pharmacies for select biological and chemical agents identified for potential use in terrorist activities. VHA Directive 2002-075, *Control of Hazardous Materials in VA Research Laboratories*, which was published in November 2002, directly addressed seven OIG recommendations, including improvements in physical security.

The Office of Research and Development (ORD) notified all research sites regarding the USA Patriot Act of 2001. ORD has been educating research laboratories about the additional personnel security issues needed to comply with the USA Patriot Act and with the CDC Select Agent guidelines. The Office of Research Oversight and ORD met in October to discuss the responsibilities and procedures for the inspections of the annual program of unannounced inspections of sites with BSL-3 research laboratories that ORD initiated in April 2003. These are to ensure compliance with safety and security guidelines. OIG will not close this recommendation until all sites have completed their security upgrades.

VHA has a training program in development that will address the open recommendation of providing instruction on laboratory security. ORD has spent more than $2 million to upgrade laboratory security. Sixty-four research sites have been identified as needing security upgrades. Fifty-five sites have received or been approved for funding. ORD will review the revised applications of the remaining nine sites by the end of 2003. In early 2003, OIG mandated VAMC directors to certify the implementation of directives and security requirements before OIG will close the recommendations. VHA and OIG have been meeting during 2003 to discuss how to best implement the open recommendations.

1H. OIG ISSUE - COMMUNICATING ABNORMAL TEST RESULTS

In our November 2002 report, *Summary Review, Evaluation of VHA Procedures for Communicating Abnormal Test Results* (Report No. 01-01965-24), we reviewed the adequacy of VHA communication procedures for conveying abnormal test results to treatment providers and

patients. Managers at clinical laboratories that were visited had established provider notification guidelines; however, compliance varied. Collectively, laboratory, pathology, radiology, and primary care need a comprehensive national VHA policy on communicating abnormal test results to treatment providers and patients. Diagnostic clinicians and treatment providers must document notification, and managers must test their alert systems. One of our four recommendations has not yet been implemented.

VA'S PROGRAM RESPONSE

VHA's Office of Information is working with the Office of Patient Care Services and field stakeholders to address both software usability and training issues to improve the use of automated alerts. These activities include, but are not limited to, system changes, such as enhancements to the CPRS Alert Processor within the CPRS Graphical User Interface and to VistA Care Management software; additional training in the area of alert management; and a business process review to address the recommendations noted by the OIG. An Alerts Management Sharing Web page on the VistA U Web site brings tools and best practices to the user's fingertips.

1I. OIG ISSUE - MANAGING VIOLENT AND POTENTIALLY VIOLENT PATIENTS

Our March 1996 report, *Evaluation of VHA's Policies and Practices for Managing Violent and Potentially Violent Psychiatric Patients* (Report No. 6HI-A28-038), recommended that VHA managers explore network flagging systems that would ensure employees at all VAMCs are alerted when patients who have histories of violence arrive at a medical center for treatment. VHA concurred that Veterans Integrated Service Network (VISN)-level/national databases are needed to support information sharing; however, CAP reviews conducted in 2003 confirm that VHA still needs to address this safety concern.

VA'S PROGRAM RESPONSE

The National Patient Record Flagging Directive, 2003-048, was released on August 28, 2003. The automated system-wide tracking software for Patient Record Flags was released to the field September 11, 2003 with activation at all sites by September 25, 2003. VHA instituted a training program on appropriate use of patient flags and Web-based support materials including best practices for clinical, administrative, and informatics field staff. A videotape for clinicians on Patient Record Flags is undergoing final review prior to release. A monthly call has been scheduled for the first Wednesday of each month at noon EST beginning October 1, 2003, to respond to any issues that may arise in the field concerning Patient Record Flags.

VA police officers receive 80 hours of initial entry training, designed to orient them to facility-specific and unique aspects of policing in a health care environment. Once completed, officers participate in a 200-hour basic police officer training course at the VA Law Enforcement Training Center, which prepares them to effectively perform their duties relating to patient, employee, and visitor-related situations. Part of this course includes over 20 hours of classroom training on how to deal with violent behavior. VA Police Standard Operating Procedures has a section dedicated to the identification and management of assault and violent behavior.

OIG2. BENEFITS PROCESSING

For the past quarter century, Veterans Benefits Administration (VBA) has struggled with timeliness of claims processing. Veterans wait too long for disability decisions, and improvement is needed in the quality and consistency of claims processing. OIG reviews continue to find that erroneous and improper payments to ineligible veterans and beneficiaries are a significant problem resulting from inadequate oversight and lack of internal controls. Because of the total dollar value of claims, the volume of transactions, the complexity of the criteria used to compute benefits payments, and the number of erroneous[2] and improper[3] payments already identified, we consider these issues high risk areas and major management challenges for VBA. Also, because VA must report erroneous and improper payments on four of its major programs[4] in its annual budget submissions and the performance and accountability report beginning in 2004, we believe VA needs to be more aggressive in identifying and eliminating erroneous and improper payments.

[2]The Office of Management and Budget defines erroneous payments as payments made that should not have been made or were made for incorrect amounts (including payments that do not necessarily involve cash disbursements).

[3]The Improper Payments Information Act of 2002 defines improper payments as any payment that should not have been made or that were made in incorrect amounts (including overpayments and underpayments).

[4]The four programs are Compensation, Dependency and Indemnity Compensation, Pension, and Insurance.

VA PROGRAM RESPONSE

VBA continues to improve the quality, timeliness, and consistency of claims processing decisions:

	As of 9/30/2002	As of 9/30/2003
Completed rating actions	797,000	872,194
Rating claims pending	345,516	253,597
% claims pending >180 days	35.3%	18.5%
% of rating accuracy	81%	85.3%
% of authorization accuracy	80%	87%

Area directors also perform periodic site visits of regional offices to assess whether field station directors have developed an effective internal control process within regional offices. In addition, VBA has incorporated performance standards into regional office (RO) directors' performance plans to specifically address the concerns above. Each director is responsible for ensuring that program integrity initiatives and policies are implemented, assessed through an effective internal control process, and adjusted as necessary to achieve appropriate results for these areas:

- IT systems access and command authorities
- Proper storage of veteran-employee claims folders
- Security log reviews
- Access to sensitive files
- Third signature reviews for large one-time or retroactive payments
- Information Security

Senior VBA managers continue to review all one-time or "special" retroactive payments in excess of $25,000. The Office of Performance Analysis and Integrity monitors and reports to RO managers on this process to ensure accuracy and timeliness. RO division managers use this information for training to preclude future errors.

VA acknowledges that additional progress needs to be made. However, it is VBA's policy to hold managers responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, and mitigating adverse aspects of agency operations.

2A. OIG ISSUE – COMPENSATION AND PENSION (C&P) TIMELINESS

VA reported its claims processing backlog peaked at about 601,000 outstanding claims. As of June 2003, VBA reports 418,000 total C&P claims pending, including 279,600 requiring rating action. C&P rating actions that once averaged 233.5 days currently average 195.4 days. VA credits these improvements to the reforms recommended by the Secretary's Claims Processing Task Force, which was charged with identifying ways to expedite claims and deliver benefits to veterans more timely. In October 2001, the Task Force recommended measures to increase the efficiency and productivity of VBA operations, shrink the backlog of claims, reduce the time it takes to decide a claim, and improve the accuracy of decisions. The Task Force made 34 recommendations (20 short-term and 14 medium-term), and VBA defined 63 actions to accomplish the 34 recommendations. CAP reviews performed at VA regional offices (VAROs) since 2001 found that C&P claims processing failed to achieve prescribed timeliness goals at 13 facilities. VBA needs to address recommendations made in the CAP reviews and fully implement the Task Force recommendations.

VA'S PROGRAM RESPONSE

Since the Claims Processing Task Force Report was released to the VA Secretary in October 2001, significant improvement has been shown in the area of claims processing timeliness. The backlog of the total number of claims and claims pending over 6 months continues to diminish as VBA continues to implement each of the 34 recommendations outlined in the report.

VBA recognizes that continued improvement in the area of claims processing needs to be shown. All offices have been operating under the new Specialized Claims Processing Teams since September 30, 2002. The new claims processing model has already significantly improved claims processing through uniformity in decision-making, specialization, and standardization in regional office organization structure, and VBA believes the improvements will continue. VBA has completed all recommendations with the exception of four that the Secretary determined needed no further action.

2B. OIG ISSUE - COMPENSATION AND PENSION PROGRAM'S INTERNAL CONTROLS

In 1999, the former Under Secretary for Benefits asked OIG for assistance

to help identify internal control weaknesses that might facilitate or contribute to fraud in VBA's C&P program. In June 1999, we issued a vulnerability assessment on the management implications of employee thefts from the C&P system. We identified 18 internal control vulnerabilities.

Our July 2000 report, *Audit of the C&P Program's Internal Controls at VARO St. Petersburg, FL* (Report No. 99-00169-97), confirmed that 16 of the 18 categories of vulnerability reported in our 1999 vulnerability assessment were present at VA's largest VARO. We made 15 recommendations for improvement. As of June 2003, 5 of the 15 recommendations were unimplemented, including controlling adjudication of employee claims, use of a third-person authorization control in the Benefits Delivery Network, and verification of continued entitlement of certain beneficiaries.

In February 2002, we issued our report, *Follow Up Evaluation of the Causes of C&P Overpayments (*Report Number 01-00263-53). Our recommendation to reduce C&P benefit overpayments by revising processing procedures and clarifying VA policy has not been resolved or implemented. VBA should implement procedures to suspend benefits when bad addresses cannot be resolved.

VA'S PROGRAM RESPONSE

VBA has placed an increased emphasis on oversight and accountability through program reviews that are used to highlight best practices and correct out-of-line situations. The results are shared with all regional offices to improve operations. In addition, the Network Support Centers continue to perform annual information security reviews of all regional offices. VBA established an information security position at each regional office to monitor system access and establish safeguards to protect veterans' information and privacy. These mechanisms have increased the level of accountability while providing an increased focus on internal controls and program integrity.

VBA has made good progress in addressing the St. Petersburg audit findings. Nineteen of the 26 action items contained in the 15 recommendations identified in the St. Petersburg audit (10 of the 15 recommendations) have been closed by the OIG. Most of the outstanding recommendations are contingent upon full deployment of VBA's Modern Award Processing (MAP) system scheduled for completion by the fourth quarter of 2004. However, many interim measures have been taken to mitigate the vulnerabilities until the permanent system fix is implemented.

While one recommendation from the C&P overpayments audit remains open, VBA is pursuing a nationwide address locator service available to all regional offices to obtain better addresses for beneficiaries that will resolve this outstanding issue. Once in place, we will finalize procedures for managing non-essential returned mail including, as the final step, suspending benefits if a better address cannot be found. We anticipate having these procedures in place by the end of 2003.

2C. OIG ISSUE - BENEFIT OVERPAYMENTS DUE TO UNREPORTED BENEFICIARY INCOME

Our November 2000 report, *Audit of VBA's Income Verification Match Results* (Report No. 99-00054-1), found that VA's beneficiary income verification process with the Internal Revenue Service resulted in a large number of unresolved cases. We estimated potential overpayments of $773 million associated with benefit claims that contained fraud indicators such as fictitious Social Security Numbers (SSNs) or inaccuracies in key data elements. We also estimated an additional $33 million in potential overpayments was related to inappropriate waiver decisions, failure to establish accounts receivable, and other processing shortcomings. VBA has implemented seven of the eight report recommendations. The recommendation to complete data validation to reduce the number of unmatched records with the Social Security Administration remains unimplemented. This was a repeat recommendation from a 1990 OIG report.

VA'S PROGRAM RESPONSE

The one remaining unimplemented recommendation from Report No. 99-0054-1 pertains to the SSN Verification Project described in M21-1, part IV, chapter 31, subchapter VIII. After reviewing and analyzing data, VBA was able to modify the process to ensure better output and matching results. VA has resumed the SSN Verification Project, and a change to M21-1, part IV, chapter 31, subchapter VIII is in process that will revise procedures for working the SSN verification lists.

Based on a sample run in April 2003, VA expects around 23,000 line items per month for at least the first 4 months. After the initial 4 months, the numbers should decline but it is difficult to predict the rate of reductions. Regional offices are required to annotate the SSN verification lists as they work them and retain a copy of the annotated list for 2 years from the date of the list. These lists will be available for review during site visits by C&P Service staff.

2D. OIG ISSUE - OVERPAYMENTS INVOLVING UNREIMBURSED MEDICAL EXPENSE CLAIMS

At the request of the former Under Secretary for Benefits, OIG conducted an audit of VBA's benefit payments to beneficiaries receiving increased benefits because of unreimbursed medical expense (UME) claims. In September 2002, we issued our report, *Audit of VBA Payments Involving Unreimbursed Medical Expense Claims* (Report No. 00-0061-169). We found that some beneficiaries were submitting unsupported or fraudulent UME claims and identified beneficiary overpayments of $125 million and underpayments of $20 million annually.

These improper payments occurred because VAROs were not effectively managing the processing of UME claims. VBA needs to enhance verification of UME claims and ensure that claims greater than $15,000 are verified. VBA reports it has implemented procedures to verify claims greater than $15,000 and other recommendations.

Following discussions with VBA and after further review, we believe that a fair representation of the projected annual overpayments associated with claims processing error would be $43.8 million. The VBA estimate of $8.4 million is wholly inconsistent with the claims processing error results and does not consider at all the additional erroneous payments associated with beneficiary fraud.

VA'S PROGRAM RESPONSE

After collaborating with the OIG on the seven recommendations, VBA resolved the vulnerabilities and the IG closed the *Audit of VBA Payments Involving Unreimbursed Medical Expense Claims* on July 9, 2003 (10 months from the date of the final report). We appreciate the OIG's efforts identifying improper payments and feel that program management is more effective as a result of this audit.

However, after reviewing some of the OIG findings, there is a significant difference between VBA's estimated annual cost avoidance of $8,415,152 and the OIG's estimate in the final report. It is particularly important to resolve this issue as we aggressively pursue quantifying erroneous and improper payments in accordance with the 2002 Improper Payment Act.

2E. OIG ISSUE - FUGITIVE FELON PROGRAM

The Veterans Education and Benefits Expansion Act of 2001 prohibits veterans who are fugitive felons, or their dependents, from receiving specified veterans' benefits. OIG has established a program to identify VA benefits recipients and employees who are fugitives from justice. The program involves computerized matches between fugitive felon files of law enforcement organizations and VA records. Once a veteran or employee is identified as a fugitive, information on the individual is provided to the law enforcement organization responsible for serving the warrant. Information is also provided to VA so that benefits may be suspended and overpayments may be recovered. In light of VBA's current claims processing work, we believe that adding the workload that this Act generates presents a major challenge for VA.

To date, OIG has completed agreements with the U.S. Marshals Service, the States of California and New York, and the National Crime Information Center. We have already identified more than 11,000 potential fugitive beneficiaries and employees. OIG anticipates that 1–2 percent of all fugitive felony warrants submitted will involve VA beneficiaries; savings are projected to exceed approximately $209 million.

VA'S Program Response

VBA began collaborating with the OIG in March 2002 to develop a plan addressing the Veterans Education and Benefits Expansion Act of 2001, P.L. 107-103. Based on information and guidance provided by the OIG, VBA has devised internal procedures that will both comply with the law and provide accurate information on suspended benefits with as limited an impact on regional offices as possible.

VBA is implementing these procedures. C&P established and issued guidance to field personnel including a standard "due process" letter to veterans in a fugitive felon status. Guidance and field procedures for Vocational Rehabilitation & Employment and Education are currently being developed. The credit underwriting guidelines for VA-guaranteed loans require loan applicants to disclose employment, residence, and credit information. The underwriting process provides for public records searches by credit bureaus that provide credit information. We believe that VA's credit underwriting process effectively excludes fugitive felons from obtaining loan guaranty benefits, except for the possibility of such individuals seeking benefits under an assumed identity.

In May 2003, VBA received 1,000 warrants from the OIG, originating from California and the U.S. Marshals Service. The warrants were sorted and sent to the appropriate regional offices. Of the 1,000, about 20 percent have been adjusted and the rest are pending final

action. We will send additional warrants out to regional offices when we receive them from OIG. VBA staff continues to meet with OIG to discuss and refine the process, and we rely on their expertise with law enforcement to achieve the most accurate actions necessary.

2F. OIG ISSUE – INCARCERATED VETERANS

In February 1999, OIG published a report titled *Evaluation of Benefit Payments to Incarcerated Veterans* (Report No. 9R3-B01-031). The review found that VBA officials did not implement a systematic approach to identify incarcerated veterans and adjust their benefits as required by Public Law 96-385. The evaluation included a review of 527 veterans randomly sampled from the population of veterans incarcerated in 6 states. Projecting the sample results nationwide, we estimated that about 13,700 incarcerated veterans had been, or will be, overpaid about $100 million.

VBA has implemented the recommendations in the report. VBA reached an agreement with the Social Security Administration (SSA) to use the State Verification and Exchange System (SVES) to identify claimants incarcerated in State and local facilities. VBA is now processing both a Bureau of Prisons match and SSA prison match cases on a monthly basis. By September 6, 2002, over 18,500 veterans were identified who received VA benefits and were potentially incarcerated. Additional potentially incarcerated veterans are being identified at the rate of 700-800 monthly. However, at this time, VBA does not have procedures in place to track the disposition of these cases and quantify the results of the matching program. VA should set up a database for tracking the total dollar value of incarcerated overpayments, which VA is required to report annually with other erroneous payments.

VA'S PROGRAM RESPONSE

Over the past year, VA has focused many resources on identifying incarcerated beneficiaries and, when appropriate, adjusted their compensation and pension benefits as provided by 38 U.S.C. § 5313 and 38 U.S.C. § 1505. In June 2002, VA started a computer match with SSA through which one-fourth of the entire VA Compensation and Pension file is run against SSA's prisoner database each month. The initial 4 monthly runs each produced over 4,000 matches. Subsequent monthly matches have each produced approximately 800 matches. Since the start of the prison match with SSA, nearly 30,000 matches have been generated. VBA is currently tracking a sample of just under 20 percent of the 700-800 monthly SSA prison match cases. It is VBA's opinion that tracking 100 percent of these cases would not be cost beneficial.

In addition to the computer match with SSA, which primarily identifies individuals in the custody of state and local authorities, VA continues to conduct a computer match program with the Federal Bureau of Prisons. Monthly runs average 30 to 40 matches.

Before VA can reduce a beneficiary's award, it must establish that the beneficiary was incarcerated for conviction of a crime. Many of the beneficiaries identified on the SSA prison match have not yet been convicted of a crime or were determined incompetent to stand trial and are confined in mental health facilities. If the beneficiary receives disability compensation or Dependency and Indemnity Compensation, VA must establish that the beneficiary was convicted of a felony. Finally, VA must establish that the individual has been incarcerated for at least 61 consecutive days after conviction.

In regard to the reporting requirements for erroneous payments, VBA has been working diligently with OMB and the Department to comply with the Improper Payment Act of 2002. A database is being developed that will maintain annual improper payment rates on Compensation, DIC, and pension benefits.

OIG3. PROCUREMENT

VA faces major challenges in implementing a more efficient, effective, and coordinated acquisition program. The Department spends about $6 billion annually for pharmaceuticals, medical and surgical supplies, prosthetic devices, information technology, construction, and services. High-level management support and oversight are needed to ensure VA leverages its full buying power, maximizes the benefits of competition, and improves contract administration.

In May 2002, the VA Secretary's Procurement Reform Task Force recommended improvements to better leverage VA's substantial purchasing power and to improve the overall effectiveness of procurement operations. By June 2002, VA began implementing Task Force recommendations. For example, VHA issued a new policy on national standardization of supplies and equipment and has established 40 user groups with responsibilities for evaluating 80 classes of supply commodities for potential standardization.

OIG reviews continue to identify problems with Federal Supply

Schedule (FSS)[5] contracts and blanket purchase agreements (BPAs)[6], along with procurements for health care items, scarce medical services, and construction. We also continue to identify weaknesses in the management of purchase cards and problems with inventory management, as discussed below.

3A. OIG ISSUE - FEDERAL SUPPLY SCHEDULE (FSS) CONTRACTS

OIG is currently conducting a national audit to evaluate the effectiveness of VA medical supply procurement practices. Preliminary results show that VAMC purchasers often paid higher prices than necessary because they did not make purchases from VA national or FSS contracts or because they established duplicative, expensive local contracts. Furthermore, we found that some existing VA national and FSS contracts did not cover products purchased, so that facilities paid a wide range of prices for the same products. Many products have potential for greater standardization, and using national contracts could better leverage the Department's buying power, yielding significant cost savings.

VA'S PROGRAM RESPONSE

The VHA Clinical Logistics Office is the lead office for the implementation of the National Item File at field facilities. Implementation will begin during October 2003. This initiative will standardize nomenclature so that supplies can be consistently tracked with nationally accepted descriptions. Secondly, under the purview of the VHA Acquisition Board, the Acquisition Planning Workgroup is developing a 5-year National Acquisition Plan. This plan will provide a basis for identifying requirements at the local level that represent opportunities for standardization and national contracts. Finally, the VHA Clinical Logistics Office recently hired a Director of Standardization to expand this nationwide effort. The standardization process has been reengineered into 14 product lines and 39 user groups that include a VISN Chief Medical Officer as the Chair. All groups have been issued charters and timelines for completion of the nationally identified Top 50 items. Web-based applications are under development to accelerate the expansion of the program. As the program matures, measures are being implemented to track compliance at the local level and accelerate the program efforts.

The VA Office of Acquisition and Materiel Management (OA&MM) National Acquisition Center continues to encourage potential offerors and current contractors to offer their complete product line for the FSS and national contracts. OA&MM also continues to work with VHA in identifying items for standardization.

3B. OIG ISSUE - CONTRACTING FOR HEALTH CARE SERVICES

OIG reviews have identified conflicts of interest in the request for approval of contracts, preparation of solicitations, contract negotiations, and contract administration efforts. Also, we continue to see that legal, technical, and pre-award price reasonableness reviews are not always performed on non-competitive contract awards. Some contracts and solicitations do not contain terms and conditions that adequately protect the Department's interests. Lastly, we have found instances where VA has allowed the affiliated medical schools to dictate the terms and conditions of contracts, including the services to be provided.

VA'S PROGRAM RESPONSE

For nearly a year, VHA has been in the process of drafting new health care procurement policy under 8153 sharing authority. During this time, we have been building consensus among all interested parties on methods to improve our justification of a fair and reasonable price, compliance with existing VA conflict of interest policy, and appropriate quality assurance and performance monitoring. Some of the interested parties include the Center for Medicare and Medicaid Services, the American Academy of Medical Colleges, and the Counsel of Teaching Hospitals. This policy has been sent to the Department for concurrence.

OA&MM will continue to educate and disseminate to the field information regarding VA's Federal Supply Schedule Program for Professional and Allied Health Care Services.

3C. OIG ISSUE - GOVERNMENT PURCHASE CARD ACTIVITIES

OIG reviews identified systemic management weaknesses in the oversight

[5]General Services Administration (GSA) provides Federal agencies with a simplified process for obtaining commonly used commercial supplies and services at prices associated with volume buying. GSA issues Federal Supply Schedules containing the information necessary for placing delivery orders with schedule contractors. GSA has delegated authority to VA to award and administer schedules for pharmaceuticals and medical/surgical supplies and equipment.

[6]BPAs are a simplified method of filling anticipated repetitive needs for services and supplies. Contractual terms and conditions are contained in a GSA Schedule contract and do not need to be re-negotiated for each use.

and use of Government purchase cards. We found instances of wasteful spending (buying without regard to need or price), purchases that exceeded the cardholder's authority, and purchases that were inappropriately split to avoid competition requirements. Some cardholders did not use existing contracts, which has resulted in paying higher prices for the same items.

VA management controls over purchase card transactions need to be strengthened so that VA buying power is leveraged to the maximum extent possible and discounts are not lost. Increased visibility and oversight over procurements are needed to ensure price reasonableness so that VA procurement needs are met effectively and economically.

VA'S PROGRAM RESPONSE

The Office of Management, in partnership with the VA administrations and OIG, has taken many steps to improve oversight and use of purchase cards in the Department. VA and administration-level policies and procedures have been disseminated to clearly identify responsibilities, recurring controls, restrictions and sanctions. Management controls and oversight are continuously emphasized through mandatory training for purchase cardholders, liaisons, and approving officials. Controls such as restrictions on where cards can be used, what can be purchased, and dollar limitations on single and cumulative purchases have been implemented with the purchase card-issuing bank. Price reasonableness and effective use of sources, including contracts that provide for maximum discounts and variety of providers, are emphasized. VA's Office of Management and OIG are also cooperating in a detection program to determine where purchase cards may have been improperly used. In addition, purchase card audits are being conducted at the field station level. Refresher training has been mandated for cardholders and approving officials at least every 2 years to ensure they are aware of all program requirements.

3D. OIG ISSUE - INVENTORY MANAGEMENT

Since 1999, we have issued six national audits of inventory management practices for various supply categories, identifying potential cost savings of about $388.5 million. We noted potential savings ($ in millions) could be achieved in the management of the following inventories.

• Medical Supply Inventories	$ 75.6
• Prosthetic Supply Inventories	$ 31.4
• Pharmaceutical Inventories	$ 30.6
• Engineering Supply Inventories	$168.4
• Miscellaneous Supply Inventories	$ 53.7
• Consolidated Mail Outpatient Pharmacy (CMOP) Inventories	$ 28.8
Total	**$388.5**

For example, in May 2002, we issued *Audit of VA Consolidated Mail Outpatient Pharmacy Inventory Management* (Report No. 00-01088-97). We reviewed seven CMOP operations and found that they could significantly reduce their pharmaceutical inventories. CMOPs maintained supplies on hand that exceeded the applicable benchmarks for 60 percent of their inventory items. We estimate that of the $63.5 million in total inventory at the CMOPs reviewed, $28.8 million (45 percent) exceeded current operating needs. Recommendations included eliminating excess inventories, improving inventory management, and developing criteria for adding new items to product lines. Recent CAP reviews continue to find VA has funds tied up in excess inventories. VA needs to develop and implement an effective method to control inventories and free up funds for other uses.

VA'S PROGRAM RESPONSE

The VA Office of Management established performance monitors for medical center inventory management shortly after the audits. Medical centers are required to report data quarterly and compile information into a "report card," with indices displayed in red, yellow, and green -- depending on the level of compliance. Collection and monitoring of this data is now conducted by the VHA Clinical Logistics Office and regularly reported to the VHA Acquisition Board and to the Deputy Secretary at the Monthly Performance Review. In addition, OA&MM assisted the VHA Logistics Office in writing VHA Directive and Handbook 1761.2, VHA

Inventory Management. OA&MM also includes inventory management training at its training events that are presented to over 500 participants per year. In addition to the OIG CAP reviews, the Office of Acquisition and Materiel Management (OA&MM) also reviews inventory management during business site reviews at more than 30 medical centers annually. On-site training is provided when out-of-line situations are discovered.

We plan several initiatives in 2004 to improve CMOP management. VHA, in partnership with OA&MM, is developing a Generic Inventory Package training program for all new hands-on users, which is scheduled to begin during the second quarter of 2004. Policy and procedures on the management of infrequently used medical and surgical supplies that must be kept on hand for management of life-threatening emergencies are being developed. The VHA Clinical Logistics Office has also been identified as being responsible for the implementation and maintenance of the National Item File. This will facilitate better inventory management processes and provide compliance data for standardization monitoring. In 2005, we plan to develop inventory and standardization utilization reports that will facilitate cost reductions.

3E. OIG ISSUE - CONTROLS OVER THE FEE-BASIS PROGRAM

We conducted an audit to determine if VHA had effective internal controls to ensure that payments for fee-basis treatment were appropriate. Fee-basis treatment is inpatient care, outpatient care, or home health care provided by non-VA health care providers at VA expense. In June 1997, the *Audit of Internal Controls over the Fee-Basis Program* (Report No. 7R3-A05-099) concluded VHA could reduce fee-basis home health care expenditures by at least $1.8 million annually and improve cost effectiveness by establishing contracting guidelines for such services and providing contracting officers with benchmark rates to determine the reasonableness of charges. VHA has not implemented two of seven recommendations.

VA'S PROGRAM RESPONSE

VHA devised a new strategy to provide needed policy direction on reimbursement for skilled home care, homemaker/home health aide, and hospice services. VHA's Business Office and VA's General Counsel are currently exploring reimbursement policy based upon payments made by the Centers for Medicare and Medicaid Services (CMS) for similar care.

OIG4. FINANCIAL MANAGEMENT

Since 1999, VA has achieved unqualified audit opinions on its Consolidated Financial Statements. The Department has made improvements in the areas of: (i) reliance on independent specialists, (ii) management of legal representations, and (iii) management ownership of financial data. However, material weaknesses continue, and corrective actions to address non-compliance with financial system requirements are expected to take several years to complete. VA needs to establish an integrated financial management system.

Over the last few years, OIG reported that VHA needs to: (i) strengthen procedures and controls for means testing, billings, and collections; (ii) reduce the rate of coding and billing errors; (iii) decrease the time it takes to bill for services; and (iv) improve medical record documentation for billing purposes. In addition, VA reported last year that VHA's Revenue Office believes that significant amounts of revenue have yet to be collected. While VA has addressed many of the concerns we reported over the last few years, our most recent audits continue to identify major challenges where VHA could improve debt management, financial reporting, and data validity.

4A. OIG ISSUE – FINANCIAL MANAGEMENT AND REPORTING

VA program, financial management, and audit staffs perform certain manual compilations and labor-intensive processes in order to attain auditable Consolidated Financial Statements. These manual compilations and processes should be automated and performed by VA's financial management system. In the meantime, we consider the risk of materially misstating financial information as high.

Last year, VA responded that the new CoreFLS[7] would resolve many OIG concerns. A November 2002 CoreFLS document, "*Resolving OIG Concerns*," noted CoreFLS alone may not be a remedy and that some issues are clearly outside the scope of this system. As an example, gaps in VA's Standard General Ledger compliance may continue to be observed in some feeder systems that are not being replaced by CoreFLS. Thus, if VBA continues operating a separate General Ledger, VA's Standard General Ledger compliance will need to be reassessed annually. In addition, CoreFLS gains will not be evident until full system implementation, now scheduled for 2006.

[7]Core Financial and Logistics System - An integrated commercial "off-the-shelf" financial and logistics software system.

VA'S PROGRAM RESPONSE

VA's Core Financial and Logistics System will address many of the issues identified by the OIG. Implementation is on schedule. VA continues to move forward with additional improvements in financial management and reporting. Due to the size and complexity of VA's financial systems, changes require significant resources and time to implement. In support of the President's Management Agenda, VA submitted the audited Consolidated Financial Statements for 2002, 2 months earlier than the previous year and is planning to complete the 2003 financial audit statements by November 11, 2003. VA will achieve these improvements through changes and enhancements to financial management systems and reporting, incorporating best practices in estimation methodologies, early month-end closes, and continued refinement to existing systems and interfaces.

4B. OIG ISSUE – DEBT MANAGEMENT

Our March 1999 report, *Evaluation of VHA's Income Verification Match Program* (Report No. 9R1-G01-054), found that VHA could increase opportunities to enhance Medical Care Collection Fund (MCCF) collections. This 1999 audit found the recommendations made in a 1996 OIG report on VHA's income verification match program were not fully implemented. Furthermore, VHA has not implemented 3 of the 13 recommendations made in the 1999 report.

In our February 2002 report, *Audit of the Medical Care Collection Fund Program* (Report No. 01-00046-65), we found that VHA could enhance MCCF collections by requiring VISN and VA medical facility directors to better manage MCCF program activities. We made recommendations to improve medical record documentation, establish performance standards, and monitor results. We recognize that progress has been made, but VHA has not fully implemented these recommendations. Opportunities exist to ensure aggressive follow-up on unpaid bills and appeals of denied insurance claims that would increase future collections. We recommend that VHA continue to pursue improvements aggressively.

VA'S PROGRAM RESPONSE

Three recommendations are pending from the *Evaluation of VHA's Income Verification Match Program*, as of September 2003. The Income Verification Match (IVM) process was successfully restarted in March 2003 when VA facilities initiated billing of converted cases. Billing activity reports were completed and shared with facilities in September 2003. Software enhancements to automatically bill all pending cases on the 61st day after referral will be installed by November 2003. Multi-year income verification processing will begin in October 2003 when VA's Health Eligibility Center (HEC) begins processing 2002 income year cases.

OIG has agreed to a revised financial assessment process based on the IVM Program to meet the intent of the Centralized Means Test Program. Full implementation of the revised financial assessment process based upon the IVM Program is dependent upon substantial modification to VHA's information system and will be implemented with 12 to 18 months.

Actions have been taken to close the remaining two recommendations from the *Audit of the Medical Care Collection Fund* report. On July 8, 2003, a memorandum issued to VISN directors implemented the Compliance and Business Integrity Program's Supporting Indicators. These indicators monitor the accuracy of medical record coding and medical care billing. In addition, in 2003, the Chief Business Officer implemented industry-based performance metrics and reporting capabilities to identify and compare overall VA revenue performance. These metrics and associated performance targets were incorporated in VISN and medical center directors' performance contracts for 2003. As analysis of these enhancements and metrics occur, they will be refined and expanded over time as appropriate. VHA is piloting centralized coding pools in two VISNs to improve coding accuracy, and developing point-of-care coding at outpatient clinics and a charge description master that will eliminate the review and coding of non-billable events. In September 2003, to ensure follow-up with insurance carriers on delinquent receivables, VHA, with the Financial Quality Assurance Service, will be completing a review of outstanding third-party receivables and preparing a plan to reduce the receivable amounts.

4C. OIG ISSUE – DATA VALIDITY

The Government Performance and Results Act (GPRA) requires agencies to develop measurable performance goals and report results against those goals. Successful implementation requires that information be accurate and complete. VA has made progress in implementing GPRA, but additional improvement is needed to ensure that stakeholders have useful and accurate performance data. In 1998, we initiated a series of audits assessing the quality of data used to compute the Department's key performance measures. In the eight

audits so far, we validated the underlying data in only two of the nine key measures reviewed. While VA has corrected the deficiencies cited in our reports involving the 7 measures that had validity problems, we are concerned that the remaining 17 performance measures identified in the 2002 performance and accountability report that have not been reviewed may have similar problems. Until the remaining 17 measures are reviewed, this issue will remain a major management challenge. VA should do a thorough review of the remaining measures and provide us assurance that data validity problems do not exist or have been corrected.

VA'S PROGRAM RESPONSE

Efforts are ongoing across VA to improve accuracy and validity of data. VHA has taken corrective action where necessary, to ensure that the validity of all data elements is adequate. The new Office of Performance Analysis and Integrity, established in 2003, consolidates data quality functions for all of VBA. This office will conduct data analyses to improve the value and quality of data VBA collects. VBA also created a Data Warehouse and Operational Data Store, which will facilitate the ability to have reliable, timely, accurate, and integrated data across the organization.

OIG5. INFORMATION MANAGEMENT

VA faces significant challenges addressing federal information security program requirements and establishing a comprehensive, integrated VA security program. Information security is critical to the confidentiality, integrity, and availability of VA data, and to protect the assets required to support health care and benefits delivery. Lack of management oversight contributes to inefficient practices and weaknesses in electronic information and physical security. We continue to identify serious Department-wide vulnerabilities.

5A. OIG ISSUE - INFORMATION SECURITY

In our December 2002 report, *Audit of the Department of Veterans Affairs Information Security Program* (Report No. 01–02719–27), we concluded VA had not effectively implemented a number of information security remediation efforts and had not ensured compliance with established policies, procedures, and guidelines. As a result, VA is at risk of attacks on, or disruption of. mission-critical systems, unauthorized access to financial and Privacy Act data, and fraudulent payment of benefits. In our 2003 work, we have found that many information system security vulnerabilities reported in our 2001 and 2002 national audits are unresolved, and we have identified additional vulnerabilities. VA needs to devote sufficient resources to ensure effective security management, oversight, and protection of critical Department operations.

CAP reviews from October 2002 through March 2003 continued to identify security weaknesses at all 11 VAMCs where we reviewed information security management. We made recommendations to improve contingency planning, background checks, systems certification, and other internal controls. VA has not implemented all planned security measures and has not ensured compliance with established security policies, procedures, and controls requirements.

VA'S PROGRAM RESPONSE

The Office of Cyber and Information Security and OIG have identified the lack of role-based training for Information Security Officers as the primary cause for continual recurrence of previously identified security deficiencies at facilities. To improve this situation, a Cyber Security Practitioner Professionalization Program has been established to ensure that VA personnel have access to adequate training in areas of IT security. VA employees who meet stringent qualifications through combinations of training, testing, and experience will be credentialed. Pertinent information will be maintained on individual cyber security practitioner certification status and periodically re-evaluated.

As an additional control, the Office of Cyber and Information Security has committed to establishing an independent compliance capability to better ensure that established policies and procedures are effectively implemented as well as tested, through the newly created Review and Inspection Division (RID). RID staff has been providing security management assistance and will conduct independent testing and verification of implemented security practices.

5B. OIG ISSUE - MEDICAL RECORD PRIVACY AND SECURITY

A December 2002 review evaluated VAMC compliance with VA's medical record privacy policies and security practices. The report, *Healthcare Inspection - Evaluation of VHA Medical Record Security and Privacy Practices* (Report No. 01-01968-41), made recommendations–two of seven are not yet implemented–to secure patient information and improve internal controls.

VA'S PROGRAM RESPONSE

VA Directive and Handbook 6500 address these issues in addition to

the Office of Cyber Security Review and Inspection Division site assessments. A revision of VHA M1, part 1, chapter 5, Medical Records, is in final concurrence and will provide guidance on locked containers or shredders in employee work areas. All VA employees completed privacy training by April 2003 and all new VA employees must complete the Web-based training within 30 days of employment. The Office of Cyber Security has instituted a Web-based privacy reporting mechanism, Privacy Violation Tracking System, for use throughout VA to document potential privacy complaints and violations received or observed by VA/VHA Privacy Officers. It also provides statistical data for national oversight of VA's privacy program. A directive and handbook on VA's cyber security program is in the concurrence process, as well as interim guidance for VA Information Security Officers. The Cyber Security Practitioner Training Program has been implemented.

Major Management Challenges

Identified By The General Accounting Office (GAO)

In January 2003, GAO issued its special series of reports entitled the *Performance and Accountability Series: Major Management Challenges and Program Risks, (GAO-03-110)*. One of the reports described major management challenges and high-risk areas facing the Department of Veterans Affairs. The following is excerpted from the report in which GAO discusses the actions that VA has taken and that are underway to address the challenges GAO identified in its Performance and Accountability Series 2 years ago, and major events that have significantly influenced the environment in which the Department carries out its mission. The report on VA can be viewed in its entirety at the GAO Web site: http://www.gao.gov/cgi-bin/getrpt?GAO-03-110.

GAO1. ENSURE ACCESS TO QUALITY HEALTH CARE

Although VA has opened hundreds of outpatient clinics, waiting times are still a significant problem. To help address this, VA has taken several actions including the introduction of an automated system to schedule appointments. Over the past several years, VA has done much to ensure that veterans have greater access to care and that the care they receive is appropriate and of high quality. Yet VA remains challenged to ensure that veterans receive the care they need, when they need it -- a challenge that has become even greater with the recent expansion of benefits.

VA must also better position itself to meet the changing needs of an aging veteran population by improving nursing home inspections and increasing access to non-institutional long-term care services. In fiscal year 2001, VA spent 92 percent of its long-term care dollars in institutional settings, such as nursing homes -- the costliest long-term care setting. However, VA's oversight of community nursing homes -- where about 4,000 veterans received care each day in fiscal year 2001 -- as not been adequate to ensure acceptable quality of care. While VA has begun to implement certain policies to improve oversight of these homes, as GAO recommended in July 2001, VA has yet to develop a uniform oversight policy for all community nursing homes under VA contract. Further, VA plans to rely increasingly on the results of state inspections of community nursing homes rather than conducting its own inspections, but it has not developed plans for systematically reviewing the quality of state inspections.

VA'S PROGRAM RESPONSE

In June 2002, VHA published a comprehensive policy on oversight of community nursing homes (CNH), implementing long-standing OIG recommendations in this area. This policy will provide national standards for annual reviews of CNHs and monthly visits by VA staff to patients in those homes. In 2002, VA established national community-based outpatient clinic (CBOC) planning criteria and standards to ensure that clinics are located in areas with greatest needs and that veterans receive the same minimum set of services and standard of care systemwide. During 2002, VA also launched a long-term strategic planning process called CARES. CARES, an acronym for Capital Asset Realignment for Enhanced Services, is designed to streamline the system's capital assets to meet the changing health care needs and demographics of America's veterans.

Future need for CBOCs to improve access will be identified through the CARES process. In 2002, all VISNs achieved full Network-wide implementation of 24/7 telephone access.

By the end of 2003, a State Veterans Home (SVH) handbook on patient safety will be issued, and training materials will follow. Points of contact have been identified at VHA facilities and the VA Central Office (VACO) Geriatrics and Extended Care (G & E) office. Electronic reporting of inspection findings and payment claims has been established. Ongoing communication forums between SVH officials, VHA facilities, and VACO G & E staff have been established. Training focused on patient safety in SVHs is ongoing. A pilot project to electronically transmit quality data from the Resident Assessment Instrument/Minimum Data Set on SVH patients is currently underway. Interpretive guidelines for the nursing home program are currently under revision and will continue to be reviewed to ensure they remain up to date. Regulations regarding SVH Day Health Care have been issued, and associated interpretive guidelines are being developed. Training on clinical privileging is planned for early 2004.

Hepatitis C - Since 1999, VA included a total of $700 million in its budgets submitted to the Congress to screen, test, and provide veterans who test positive for hepatitis C with a recommended course of treatment. In June 2001, GAO testified that VA missed opportunities to screen as many as 3 million veterans who visited medical facilities during fiscal years 1999 and 2000, potentially leaving as many as 200,000 veterans unaware that they have hepatitis C. In response to our testimony, VA has begun to improve screening and testing procedures. In 2002, VA established a process to monitor screening and testing performance. In addition to monitoring VA's progress in screening and testing veterans for hepatitis C, GAO is assessing its efforts to notify veterans who test positive and to evaluate veterans' medical conditions regarding potential treatment options.

VA'S PROGRAM RESPONSE

The External Peer Review System collects data on evidence of systematic screening of veterans for hepatitis C through patient chart reviews. The results show steady improvement in rates of screening during every quarter. In the first quarter of 2003, over 93 percent of 8,000 charts that were reviewed contained evidence of screening for hepatitis C risk factors.

VA's efforts to enhance notification and evaluation of veterans who test positive for hepatitis C involve several strategies. An information letter from the Under Secretary for Health was circulated to all facilities in December 2002, outlining systems for ensuring that diagnostic testing is efficient and accurate and that clinicians are aware of positive test results promptly. A VA Hepatitis C Case Registry has been implemented that captures all veterans with positive hepatitis C antibody tests and related diagnostic codes and enables each site to identify and track the patients who need to be notified. A newly developed query tool for the Computerized Patient Record System (CPRS) allows clinicians to access a broad array of data in the electronic medical record. An application of the CPRS query tool will enable clinicians to search for abnormal test results such as positive hepatitis C tests. Systems such as My HealtheVet are being developed to give patients better access to test results and other information in the electronic medical record. Although there are significant concerns about relaying sensitive, personal medical information by mail or telephone, several VA sites are working on ways to notify patients without loss of confidentiality. Best practices will be identified and disseminated based on this work. Further data on timeliness of notification are being collected through the External Peer Review Program to guide future performance improvement activities.

GAO2. MANAGE RESOURCES AND WORKLOAD TO ENHANCE HEALTH CARE DELIVERY

2A. CARES

VA has begun to make more efficient use of its health care resources to serve its growing patient base. However, to meet the growing demand for care, VA must carry out its plan to realign its capital assets and acquire support services more efficiently. At the same time, VA needs to improve its process for allocating resources to its 21 health care networks to ensure more equitable funding. VA must also seek additional efficiencies with the Department of Defense (DoD), including more joint purchasing of drugs and medical supplies.

VA is one of many federal agencies facing challenges in managing problems with excess and underutilized real property, deteriorating facilities, and unreliable property data. In 1998, GAO reported that in the Chicago area alone, as much as $20 million could be freed up annually if VA served area veterans with three instead of four hospitals. In response, in October 2000, VA established the Capital Asset Realignment for Enhanced Services (CARES) program,

which calls for assessments of veterans' health care needs and available service delivery options to meet those needs in each health care market–a geographic area with a high concentration of enrolled veterans. VA needs to build and sustain the momentum necessary to achieve efficiencies and effectively meet veterans' current and future needs. The challenge is to do this while mitigating the impact on staffing, communities, and other VA missions. Successfully completing this capital asset realignment will depend on VA's ability to strategically and expeditiously complete the implementation of CARES.

VA'S PROGRAM RESPONSE

See discussion under OIG Challenge, 1B on page 146.

2B. ALTERNATIVE METHODS FOR PATIENT CARE SUPPORT SERVICES

VA's transformation from an inpatient- to an outpatient-based health care system has significantly reduced the need for certain patient care support services such as food and laundry. In November 2000, GAO recommended that VA conduct studies at all of its food and laundry service locations to identify and implement the most cost-effective way to provide these services at each location. In August 2002, VA issued a directive establishing policy and responsibilities for its networks to follow in implementing a competitive sourcing analysis to compare the cost of contracting and the cost of in-house performance to determine who should do the work. VA needs to follow through on its commitment to ensure that the most cost-effective, quality service options are applied throughout its health care system and to conduct system wide feasibility assessments for consolidation and competitive sourcing.

VA'S PROGRAM RESPONSE

Since the GAO recommendation was made, VA has implemented an infrastructure and plan to take advantage of competitive sourcing opportunities. VA established the Competitive Sourcing and Management Analysis Service (CSMAS) to lead activities across VA. OMB approved VA's plan to study 55,000 FTE across 19 ancillary functions within VA, including food and laundry service. The CSMAS established a Web-based communication tool and a detailed competitive sourcing handbook and training course, and made various other tools available across VA. In mid-2003, VA's General Counsel (GC) opined that 38 U.S.C. 8110(a)(5) prohibited VA from doing cost comparisons with any personnel paid from VA's medical care accounts. In August 2003, after GC clarification of the ruling, all competitive sourcing studies in VHA were terminated. VA is now seeking remedies to the prohibition through either a separate appropriation or revision to title 38. In the meantime, VA is examining other alternatives that do not violate the prohibition of title 38 while potentially yielding cost savings that would be obtained if VHA was permitted to continue with competitive sourcing studies.

2C. VETERANS' EQUITABLE RESOURCE ALLOCATION (VERA)

In fiscal year 1997, VA began allocating most of its medical care appropriations under the Veterans Equitable Resource Allocation (VERA) system, which aims to provide VA networks comparable resources for comparable workloads. In response to recommendations GAO made in February 2002 regarding VERA's case-mix categories and Priority 7 workload, VA said that further study was needed to determine how and whether to change VERA. VA announced in November 2002 that it plans to make changes to VERA for the 2003 fiscal year when VA's appropriation is finalized. Some of the planned changes, if implemented, could address recommendations GAO made. Delaying these improvements to VERA means that VA will continue to allocate funds in a manner that does not align workload and resources as well as it could.

VA'S PROGRAM RESPONSE

In 2003, VERA expanded from 3 to 10 price groups. There are six (1 through 6) Basic Care price groups and four (7 through 10) Complex Care price groups. This change is consistent with the recommendations in the 2002 GAO and RAND reports and improves the equity of resource allocation among networks. This change also modified the initial funding split between Basic Care and Complex Care to reflect the current base year cost experience rather than continuing to use the fixed 1995 cost split ratio.

Based on a careful assessment of all policy options, the Secretary decided to continue the past practice of excluding nonservice-connected Priority 7 Basic Care patients from the VERA allocation model for 2003. Although the inclusion of nonservice-connected Priority 7 veterans in the VERA Basic Care category would be a step toward better aligning the VERA allocation model with VA's actual enrollment experience, including these veterans in the VERA model would create financial incentives to seek out more of these veterans instead of those with service-connected disabilities, with incomes below the current income threshold, or with special needs (e.g., spinal cord injury) -- veterans who comprise VA's core health care mission.

2D. VA/DOD SHARING

In an effort to save federal health care dollars, VA and DoD have sought ways to work together to gain efficiencies. To ensure sharing occurs to the fullest extent possible, VA needs to continue to work with DoD to address remaining barriers, as GAO recommended in our 2000 report. It is particularly critical that VA take a long-term approach to improving the VA/DoD sharing database, which VA administers. Currently, VA and DoD do not collect data on the volume of services provided, the amount of reimbursements collected, and the costs avoided through the use of sharing agreements. Without a baseline of activity or complete and accurate data, VA and DoD, and the Congress, cannot assess the progress of VA and DoD sharing.

VA'S PROGRAM RESPONSE

Through the VA/DoD Executive Council structure, the Departments are institutionalizing sharing and collaboration through a joint strategic planning process. In April 2003, the VA/DoD Joint Executive Council approved a joint strategic plan to improve the quality, efficiency, and effectiveness of benefits and service delivery. Each of the six strategic goals is accompanied by performance expectations, measurements, and timelines. To monitor and facilitate implementation of high-priority joint projects, processes have been or are being established for capital asset planning, adoption of a national item (coding) file in logistics, conversion of Distribution and Pricing Agreements to VA Federal Supply Schedules, implementation of interoperable electronic health records, joint separation physicals and compensation and pension examinations, and expansion of joint Consolidated Mail Outpatient Pharmacies.

VHA's Medical Sharing Office and Office of Information are discussing how to collect data on the volume of services provided to DoD and how to integrate this data with reimbursements collected. The Office of Information is analyzing possible short- and long-term improvements to the VA/DoD database to capture the volume and types of service provided and tie these services to reimbursements collected. Recommendations for short-term improvements are expected in several months and will include modifications to existing software. Long-term improvements must be integrated into planned major changes that will modernize VA's current VISTA medical record system, and are at least 2 years away. To improve the timeliness and upgrade the current VA/DoD database, the Medical Sharing Office has dedicated an information technology specialist whose primary responsibility is managing the database.

The VHA Handbook, "*VA-DoD Health Care Resource Sharing*" (1660.1-section 7, "Reimbursements and Billing" - soon-to-be revised), requires an evaluation of costs in developing agreements with DoD. The Medical Sharing Office believes that requiring facilities to submit cost avoidance data would be unnecessarily burdensome for facilities and would act as a disincentive to developing agreements. Several years ago, DoD imposed a cost avoidance requirement and found that compliance was sporadic and that frequently the information provided was incomplete. DoD's requirement was eliminated after a short period.

As a small part of the VA/DoD Sharing initiative, requirements have been and will continue to be identified for joint contracting under the pharmaceutical and medical/surgical arenas. The number of joint contracts, pending procurements, estimated award values, actual sales, and cost avoidance will continue to be reported periodically to the appropriate VHA office.

The VA/DoD Health Executive Council has made significant progress with deploying the Federal Health Information Exchange nationwide; implementing a new standardized national reimbursement rate structure for VA/DoD clinical sharing agreements; utilization of VA's Consolidated Mail Outpatient Pharmacies at three sites to provide refill prescriptions for DoD military treatment facilities; increased cooperation in facility and capital asset planning, including DoD representation in the CARES process; and VA's enhanced role as a direct sharing partner in TRICARE.

Similarly, the VA/DoD Benefits Executive Council is working on the Benefits Delivery at Discharge initiative that 1) assists separating servicemembers in accessing their benefits by providing information, education, and claims assistance at the time of discharge; 2) includes a single physical examination that meets the requirements of both the military separation exam and the VA compensation and pension exam; and 3) is based on interoperable information systems to facilitate the exchange of information and expedite claims processing.

2E. THIRD-PARTY COLLECTIONS

VA's third-party collections increased in fiscal year 2001—reversing a trend of declining collections—and again in fiscal year 2002. However, over the past several years, GAO has reported on persistent collections process

weaknesses–such as lack of information on patient insurance, inadequate documentation of care, a shortage of qualified billing coders, and insufficient automation–that have diminished VA's collections. VA has taken several steps to improve its collections performance, including developing the *Veterans Health Administration Revenue Cycle Improvement Plan* in 2001, which aims to address its long-standing collections problems. More recently, in May 2002, VA created a Chief Business Office that is planning additional initiatives to improve collections. However, by the end of fiscal year 2002, VA was still working to implement proposed initiatives for resolving its long-standing collection problems. To ensure it maximizes its third-party collections, VA will need to be vigilant in implementing its plan and initiatives.

VA'S PROGRAM RESPONSE

In 2003, VHA implemented performance measures for the revenue program including collections, gross days revenue outstanding, days to bill, and accounts receivable greater than 90 days. VISNs and medical centers are encouraged to utilize existing contracts to outsource Accounts Receivable follow-up. The electronic data interchange for insurance claims has expedited this process by reducing pay receipt times from health plans that accept electronic claims. Employee training programs on the core revenue business processes have been developed to increase awareness of the revenue process. By October 2003, a denial management capability at VISN and facility levels will require establishment of audit-appeal business processes and claims development quality controls. At the same time, we will be issuing policies related to mandated pre-certification, continued stay review, and procedural authorization for all health-insured veterans consistent with payer requirements, as well as standardizing the utilization review procedures at every facility.

Planned for 2004 are projects to improve the medical care collection fund processes and include the development of an insurance lockbox for processing electronic transactions; implementation of software to quicken the electronic transmission of claims, allowing for faster payment and increased billing productivity; and the completion of a joint VA and Centers for Medicare/Medicaid Services project in November 2003. This joint project will enable VA to provide Medicare supplemental payers with Medicare deductible and coinsurance amounts used to determine reimbursements to VA for health care provided to veterans. The redesigned VHA enrollment database will be deployed during December 2003. It will help ensure that consistent and reliable demographic and eligibility data are shared across VHA. We are actively pursing enhanced VHA/VBA data sharing with an initial focus on expanded access to veterans' service-connected disability rating information. An initiative that will automate the identification and verification of health insurance benefits is being implemented in September 2003.

Looking beyond 2004, VHA is planning to implement several software upgrades to add new functionality to the billing processes. For example, a Patient Financial Services System project will implement a commercial off-the-shelf health care billing and accounts software system that will replace the VistA Integrated Billing and Accounts Receivable applications. VHA will continue working closely with the Department's CIO to ensure that all new technological developments are compatible with VA's technology and processing environment.

GAO3. PREPARE FOR BIOLOGICAL AND CHEMICAL ACTS OF TERRORISM

Following the attacks of September 11, 2001, VA determined that it needed to stockpile pharmaceuticals and improve its decontamination and security capabilities. VA also has new responsibilities to establish four medical emergency preparedness centers and carry out other activities to prepare for potential terrorist attacks.

VA'S PROGRAM RESPONSE

VHA has progressed significantly in the areas of establishing VAMC-based pharmaceutical caches and in essential decontamination training and equipment for VAMC facilities and personnel. Both are becoming integral components of VHA's comprehensive emergency management system.

The four proposed Medical Emergency Preparedness Centers would build on VA's expertise in health care, infectious disease, nuclear medicine, education, research, patient and staff health and safety, and other areas vital to emergency preparedness. The centers would enhance the readiness in the event of terrorist acts posing threats to public health and safety. The final language enacted by Congress did not support funding of the four centers. Thus, VA's appropriations act specifically prohibits any funds provided for 2003 from being spent on these centers. VA continues to work with other agencies such as the Departments of Defense, Health and Human Services, and Homeland Security in the emergency preparedness role.

VA's Office of Policy, Planning, and Preparedness developed criteria for identifying VA's critical infrastructure, a 12-threat scenario risk matrix, and a detailed inspection checklist. The prototypes were delivered in October 2002. By the summer of 2004, 14 full assessments of VA's most critical facilities and preliminary assessments of an additional 100 highly critical facilities will be completed.

An electronic database is being developed that will capture vulnerability assessment data and link it with existing VA space and building databases as well as law enforcement databases. It will be operable by the end of 2003. This system will be delivered to VA as a turnkey operation to coincide with the completion of the vulnerability assessments performed in the project described above. A separate project to assess the Department's ability to secure or reconstitute its essential business papers is scheduled for completion in October 2003.

VA is also studying the preparedness of VA personnel during and after a catastrophic event, determining if the Department has a sufficient number of personnel with the requisite skills for rapid deployment in the event of an emergency, and reviewing the standards for evacuation and/or shelter-in-place activities. The study is also evaluating practices regarding security clearance and treatment of foreign nationals. Additionally, a review of employee personnel files will be completed in November 2003 determining if there is sufficient information available in case of grave emergency or death of employees.

In December 2003, a review of selected VA emergency preparedness planning documents will be completed. This review is being conducted for relevancy, currency, and the degree to which all pertinent planning considerations have been addressed. This review is being undertaken in a context of existing operational standards and best practices for developing emergency preparedness planning, including responding to acts of terrorism.

GAO4. IMPROVE VETERANS' DISABILITY PROGRAM

VA acted to improve its timeliness and quality of claims processing, but is far from achieving its goals. Of greater concern are VA's outmoded criteria for determining disability and its capacity to handle the increasing number and complexity of claims. VA will need to seek solutions to provide meaningful and timely support to veterans with disabilities. While the Department is taking actions to address these problems in the short term, longer-term solutions may require more fundamental changes to the program including those that require legislative actions. For these reasons, GAO has added VA's disability benefits program, along with other federal disability programs, to the 2003 high-risk list.

The Secretary has made the improvement of claims processing performance one of VA's top management priorities, setting a 100-day goal for VA to make accurate decisions on rating-related compensation and pension claims, and a reduction in the rating-related inventory to about 250,000 claims by the end of fiscal year 2003. While VA has made some progress in improving production and reducing inventory, it is far from achieving the Secretary's goals. Improving timeliness, both in the short and long term, requires more than just increasing production and reducing inventory. VA must also continue addressing delays in obtaining evidence to support claims, ensuring that it has experienced staff for the long term, and implementing information systems to help improve productivity.

To help improve decision accuracy and consistency across regional offices, VA established the Training and Performance Support System (TPSS), a computer-assisted system designed to provide standardized training for staff at all regional offices. However, many of the modules were not available to help train the new claims processing staff VA hired during fiscal years 2001 and 2002, and, in May 2001, GAO reported that VA had pushed back its completion of all TPSS modules until sometime in 2004. Until VA completes TPSS implementation, it will not be able to evaluate the program's impact on claims processing accuracy and consistency. More recently, GAO recommended in August 2002 that VA establish a system to regularly assess and measure the degree of consistency across all levels of VA claims adjudication and to improve the quality of decisions made by VA's Board of Veterans' Appeals.

Of greater concern is VA's use of outmoded criteria for determining disability. In 1997, GAO reported that VA's disability rating schedule is still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average individual's ability to perform jobs requiring manual or physical labor.

More recently, GAO reported that the criteria used by VA and other federal programs to determine disability have not been fully updated to reflect medical and technological advances and have not incorporated labor

market changes. GAO recommended that VA use its annual performance plan to delineate strategies for and progress in periodically updating its disability criteria. GAO also recommended that VA study and report to the Congress the effect that a comprehensive consideration of medical treatment and assistive technologies would have on VA disability programs' eligibility criteria and benefit package. VA did not concur with our recommendations. The Secretary of Veterans Affairs stated that the current medically based criteria are an equitable method for determining disability and that VA is in the process of updating its criteria to account for advances in medicine. However, GAO believes that until VA aligns its disability criteria with medical and technological advances and holds itself accountable for ensuring that disability ratings are based on current information, future decisions affecting its disability program will not be adequately informed. This fundamental problem and sustained challenges in processing disability claims put the VA disability program at high risk of poor performance.

VA'S PROGRAM RESPONSE

VBA continues to improve the quality, timeliness, and consistency of claims processing decisions:

	As of 9/30/2002	As of 9/30/2003
Completed rating actions	**797,000**	**827,194**
Rating claims pending	**345,516**	**253,597**
% claims pending >180 days	**35.3%**	**18.5%**
% of rating accuracy	**81%**	**85.3%**
% of authorization accuracy	**80%**	**87%**

VA continues to address delays in obtaining evidence to support claims, ensuring that it has experienced staff for the long-term, and implementing information systems to help improve productivity. Extensive progress between VA and DoD sharing efforts are underway that will reduce the time and resources it takes to process claims. We are working with DoD to develop a medical examination protocol that would satisfy requirements for a proper discharge exam as well as a comprehensive C&P examination. In addition, we are collaborating with DoD's Joint Requirements and Integration Office to obtain limited access to active-duty personnel data maintained in the Defense Integrated Military Human Resources System database. VA also continues to electronically request and receive imaged records from the Army, Navy, and Marine Corps through an interface between the Personnel Information Exchange System and the Defense Personnel Records Imaging System. Approximately 2,700 requests for records are processed through this interface each month, which expedites the evidence-gathering portion of claims processing improving VA's timeliness by 3 to 6 months.

Succession planning and maintaining a well-trained workforce are of utmost importance. VBA was pleased with GAO's final report, *Better Collection and Analysis of Attrition Data Needed to Enhance Workforce Planning* (GAO-03-491) and concurred with GAO's recommendation that will help VBA ensure it has experienced staff for the long term. Beginning in July 2003, VBA implemented an exit interview survey process to capture data regarding employee turnover. Data analysis will be conducted centrally and will include a review of overall attrition and stratification by grade and/or tenure. At a later time, training on retention will be offered to human resources staff in the field. In addition, VBA recently completed its initial workforce plan, which analyzed workforce needs and trends, including retirement and non-retirement losses in the aggregate and by key occupations.

VBA did not concur with GAO's contention that the criterion for determining disability is outmoded. The Schedule for Rating Disabilities that VA uses is continuously reviewed and revised based upon medical advances. Among the changes to the schedule is the replacement of fixed convalescence periods with periods based upon medical evidence in the individual veteran's claim. An example of this is the convalescence period for most cancers that has been

shortened from 1 year to, in most cases, 6 months.

We believe that GAO's recommendation does not take full consideration of the fact that the rating schedule evaluation scheme is not based solely on occupational considerations and their impacts on earnings. The study of the President's Commission on Veterans' Pensions (the Bradley Commission), referenced by GAO in its 1997 report, concluded that the basic purpose of disability compensation for VA was not to strictly adhere to the basic standard of assigning percentages based on average impairment of earning capacity. Furthermore, VA's standard has been primarily a physical disability standard that also takes into consideration pain, suffering, disfigurement, and social inconvenience. It should be noted that in developing rating schedule changes, we do consult and/or receive comments from professional and advocacy groups concerned with issues related to the change currently being recommended. Court decisions also play a role in the development of the schedule.

VA will initiate an evaluation of the disability compensation program in 2004. The evaluation will examine whether the program improves the quality of life of veterans and is more than an income replacement program. The evaluation would compare the income of disabled veterans who receive compensation with those who do not. The evaluation will encompass the full array of federal benefit programs that are available to disabled veterans with emphasis on VA health care; VA vocational rehabilitation, education, and pension programs; and other programs such as Social Security and Medicare. Research questions and outcome measures will be developed that address concerns about the current disability rating scale and the impact a service-connected disability has on a veteran's earnings potential and quality of life. The evaluation team will also examine advances in medical treatment and the use of support technology. While the study will require approximately 36 months to complete, periodic interim reports will ensure that the most current information is made available to the Secretary for decisions affecting the disability compensation program.

GAO5. DEVELOP SOUND DEPARTMENTWIDE MANAGEMENT STRATEGIES TO BUILD A HIGH-PERFORMING ORGANIZATION

Since 1997, VA has spent about $1 billion annually on its information technology. VA has established executive support and is making strides in developing an integrated Departmentwide enterprise architecture. To safeguard financial, health care, and benefits payment information and produce reliable performance and workload data, VA must sustain its commitment.

5A. LINK BUDGETING AND PLANNING

Establishing a close link between budgeting and planning is essential to instilling a greater focus on results. While VA's health care budget formulation and planning processes are centrally managed, they are not closely linked. VA's annual performance plan describes the Department's goals, strategies, and performance measures. However, the relationship between its performance plan and its health care budget formulation is unclear.

VA officials noted that steps are being taken to better integrate their health care budget formulation and planning processes. However, VA continues to face challenges in further integrating these processes and in defining areas for improvement.

VA'S PROGRAM RESPONSE

VA has made a number of advancements toward integrating budget and performance. Ongoing Monthly Performance Review meetings involving VA senior leadership have created a continuous review of program performance in the areas of financial management, performance measurement, workload, and major construction, and information technology projects. The purpose of this regularly scheduled meeting, chaired by the Deputy Secretary, is to inform while identifying issues through a detailed review of Department resources. Because all programs are represented at this meeting, the resulting management decisions are immediately communicated and incorporated to maximize resource utilization. As of 2003, VA completed Program Assessment Rating Tool reviews on 5 of 9 programs in collaboration with OMB. This information will be incorporated in subsequent budget requests and will address areas that need performance improvement and describe how resources relate to program effectiveness. Two VA programs are participating in Common Measures exercises: Medical Care and Vocational Rehabilitation and Employment (VR&E). Common measures are meant to evaluate the effectiveness of government programs that have similar goals. The Veterans Health Administration is working with the Department of Defense, Indian Health Service, and Community Health Centers programs to quantify the resources spent on direct federal health care programs. VR&E is developing measures with the Departments of Labor, Housing

and Urban Development, Education, and Interior to evaluate the effectiveness of federal employment programs. With the 2005 budget, VA is providing a more complete picture of our resource needs by better integrating legislative proposals with the budget request.

VA is submitting its 2005 budget using the same account structure proposed in the 2004 budget. The structure focuses on nine major programs – medical care, research, compensation, pension, education, housing, vocational rehabilitation and employment, insurance, and burial. The 2004 budget is pending congressional action. The Administration is negotiating with Congress on what features of the proposed account structure will be implemented.

5B. INFORMATION TECHNOLOGY CHALLENGES

Over the past 2 years, VA's commitment to addressing critical weaknesses in the Department's IT management has been evident. Nonetheless, challenges to improve key areas of IT performance remain. Specifically, VA's success in developing, implementing, and using a complete and enforceable enterprise architecture hinges upon continued attention to putting in place a sound program management structure. In addition, VA's computer security management program requires further actions to ensure that the Department can protect its computer systems, networks, and sensitive health and benefits data from vulnerabilities and risks.

VA is also challenged to develop an effective IT strategy for sharing information on patients who are both VA and DoD beneficiaries or who seek care from DoD under a VA/DoD sharing agreement. The lack of complete, accurate, and accessible data is particularly problematic for veterans who are prescribed drugs under both systems. While each department has established safeguards to mitigate the risk of medication errors, these safeguards are not necessarily effective in a shared environment–in part because VA's and DoD's IT systems are separate. Consequently, DoD providers and pharmacists cannot electronically access health information captured in VA's system to aid in making medication decisions for veterans, nor can they take advantage of electronic safeguards such as computerized checks for drug allergies and interactions.

VA'S PROGRAM RESPONSE

In June 2003, the VA CIO signed and published the "*VA Enterprise Architecture Program Management Plan*." It defines the processes and approach that allow the One VA Enterprise Architecture to be integrated with the VA capital planning, budgeting, and project management oversight processes. The plan serves as the mechanism for formalizing the execution of the One VA Enterprise Architecture Management Program as a change agent and continuous improvement process, aligning integrated technology solutions with the business needs of the Department.

The Office of Cyber and Information Security (OCIS) is charged with implementation and oversight of the Department IT Security Program and is developing policies, procedures, and practices that ensure the protection of VA information systems. In accordance with a GAO recommendation to further identify risks and associated vulnerabilities, OCIS is establishing an IT risk management capability for the Department. This capability will include a central risk management focal point in OCIS; a program for promoting awareness of risk-related IT security issues; and identification and implementation of practical risk assessment procedures and tools that link security policies to business needs. Additionally, the OCIS risk focal point will assist business managers in conducting risk assessments; establish risk management policies and procedures; and continually monitor and evaluate the effectiveness of these activities, thereby ensuring the timely identification and effective mitigation of risks associated with emerging vulnerabilities.

Additionally, OCIS has enhanced the capabilities of a key technical project targeted toward identification of vulnerabilities and mitigation of risk. This program, the Enterprise Cyber Security Infrastructure Project (ECSIP), merges VA's actions to implement a Departmentwide intrusion detection system (IDS) and, concurrently, upgrade external connections. ECSIP activities will systematically collapse the more than 200 existing Internet gateways and other external network connections in VA into a more manageable number and efficient structure. Concurrent with this effort, Departmentwide IDS capability will be incrementally deployed on a strategic basis to provide significantly increased security protections for the remaining gateways.

To enhance VA's ability to protect its information systems, OCIS revised the ECSIP schedule to provide more rapid deployment of IDS technology throughout the Department. Additionally, concurrent with the IDS effort, the capabilities of the existing VA Central Incident Response Capability will be expanded to include establishment of a Network and Security Operations Center that will provide real-time technical mon-

itoring of VA's internal network, analytical incident support, and information sharing capabilities regarding emerging threats and vulnerabilities with appropriate public and private organizations. These combined activities will enhance capabilities to protect sensitive VA information systems and data from existing and emerging vulnerabilities, thereby mitigating risk.

VA is closely collaborating with DoD on a strategy to improve sharing of complete and accurate electronic medical information. The VA/DoD Joint Executive Council and VA/DoD Health Executive Council have approved the adoption of the joint VA/DoD electronic health records plan -- HealthePeople (federal). This plan provides the exchange of health data and development of a common health information infrastructure and architecture supported by common data, communications, security and software standards, and high performance health information systems. The plan will directly address and mitigate risks of medication errors, drug allergies, and adverse drug reactions. It also includes the Federal Health Information Exchange, which will provide VA historical data on separated and retired military personnel from the DoD's Composite Health Care System. VA and DoD are also developing interoperable (and bi-directional) data repositories, which will provide real-time health data on veterans who receive care from both systems.

5C. FINANCIAL MANAGEMENT MATERIAL WEAKNESSES

In December 2002, VA's independent auditor issued an unqualified audit opinion on VA's consolidated financial statements for fiscal years 2002 and 2001. However, the unqualified opinion was achieved, for the most part, through extensive efforts of both program and financial management staff and the auditors to overcome material internal control weaknesses to produce auditable information after year-end. The auditor reported two long-standing systems and control problems that remain unresolved. In addition, VA's accounting systems–similar to those of most major agencies–did not comply substantially with Federal Financial Management Improvement Act (FFMIA) requirements. These weaknesses continue to make VA's program and financial data vulnerable to error and fraud and limit the Department's ability to monitor programs through timely internal financial reports throughout the fiscal year.

VA has demonstrated management commitment to addressing material internal control weaknesses previously reported, and has made significant improvements in financial management. For example, in February 2001, the auditor reported that VA had improved on its reporting and reconciling of fund balances with Treasury–removing this as a material weakness. VA also continued to make progress in implementing recommendations from our March 1999 report that resulted in improved control and accountability over VA's direct loan and loan sale activities and compliance with credit reform requirements.

However, during its audit of VA's fiscal year 2002 financial statements, the auditor reported that two previously reported material weaknesses still exist in the areas of information systems security and financial management system integration.

Departmentwide weaknesses in security controls over automated data processing continue to make VA's sensitive financial and veteran medical and benefit information at risk of inadvertent or deliberate misuse or fraudulent use.

Material weaknesses continue to hamper timely completion of financial statements. Specifically, VA continues to have difficulty related to the preparation, processing, and analysis of financial information to support the efficient and effective preparation of its financial statements.

VA'S PROGRAM RESPONSE

VA's Office of Information and Technology has developed and monitors a Departmentwide information technology security controls plan that details actions through March 2005 to correct identified risks of inadvertent or deliberate misuse or fraudulent use of data.

The Department continues to move toward implementing CoreFLS, an integrated commercial off-the-shelf software financial and logistics system solution. Deployment of CoreFLS represents a major step in VA's effort to implement a centralized system where policies, processes, procedures, and data classification rules are consistently applied. The CoreFLS system will be the basis for a more comprehensive solution across all VA systems. CoreFLS will assist VA by addressing internal controls and financial reporting deficiencies in many significant ways and provide the following features/capabilities to support VA's obtaining an unqualified audit opinion:

- Integration of many disparate systems into a single system to improve the Department's ability to track, reconcile, and report VA-wide financial and logistics activities automatically.

- Improved management of financial and logistical activities as "*One VA*" by streamlining operations, standardizing best practices, and providing timely information for management decisions.
- Better alignment of resources with program activities, tracking of program performance against full cost, improved automated reconciliation, and improved ad hoc analytical tools.

CoreFLS will greatly simplify the process of generating VA's consolidated financial statements by combining the financial activities of all VA administrations and reporting them from a single system of records. CoreFLS will also provide the capability to reopen closed periods in a controlled manner (or perform multiple preliminary year-end closings) so that revised financial statements can be prepared. Further, CoreFLS will reduce manual compilations and streamline extraneous processes, thus reducing vulnerability to error and fraud.

GAO6. FEDERAL REAL PROPERTY: A HIGH RISK AREA

There is a need for a comprehensive and integrated real property transformation strategy that could identify how best to realign and rationalize federal real property and dispose of unneeded assets; address significant real property repair and restoration needs; develop reliable, useful real property data; resolve the problem of heavy reliance on costly leasing; and minimize the impact of terrorism on real property.

VA has struggled to respond to asset realignment challenges due to its mission shift to outpatient, community-based services. GAO reported in 1999 that VA had 5 million square feet of vacant space and that utilization will continue to decline. VA has recognized that it has excess capacity and has an effort under way known as the Capital Asset Realignment for Enhanced Services (CARES) that is intended to address this issue. VA's environment contains a diverse group of competing stakeholders who could oppose realignment plans that they feel are not in their best interests, even when such changes would benefit veterans.

Improvements in capital planning are needed. For example, GAO reported in 1999 that VA's capital asset decision-making process appeared to be driven more by the availability of resources within VA's different appropriations than by the overall soundness of investments. This resulted in VA spending millions more on leasing property instead of ownership because funds were more readily available in the appropriation that funds leases than in the construction appropriation.

In recent years, VA has also developed legislative proposals to establish a capital asset fund, which would, among other things, be aimed at improving its capability to dispose of unneeded real property by helping to fund related costs such as demolition, environmental cleanup, and repairs.

VA'S PROGRAM RESPONSE

VA concurs with GAO's recommendation. The Secretary has taken steps to significantly improve the Department's management of capital assets, including the establishment of the Office of Asset Enterprise Management (OAEM) in 2001. OAEM promotes capital programming strategies including the development of integrated approaches to transform underutilized or unneeded capital assets from liabilities to potential capital resources through the use of existing authorities (enhanced use leasing and enhanced sharing) and legislative and policy changes when necessary.

VA is committed to a comprehensive, corporate-level approach to capital asset management to more closely link asset decisions with its strategic goals, elevate awareness of assets, and employ performance management techniques to monitor asset performance on a regular basis. At the core of VA's capital asset business strategy is value management – striving to return value to VA's business and managing existing value for greater return.

VA is conducting a comprehensive planning process, Capital Asset Realignment for Enhanced Services (CARES), to align capital assets to meet veterans' future needs for accessible, quality health care. Preliminary recommendations indicate that VA's enhanced-use lease authority will play a major role in the realignment of VHA's capital assets by transforming underutilized space from a liability to an important component of the VA's overall capital portfolio.

Each year VA re-evaluates the capital investment methodology and planning process and adapts capital strategies to ensure alignment with the administration's management agenda, and strategic plan, goals and objectives.

In 2003, VA continued to develop a Capital Asset Management System (CAMS) that functions as a portfolio management tool for all of its significant capital assets. CAMS will be structured to extract valid, reliable,

useful, real property data from existing corporate data systems. Each significant investment will be tracked through its entire lifecycle from formulation, execution, steady state, and disposal. Investment protocols and standards are being developed to provide guidelines for each major phase or milestone in the life cycle of a capital asset decision. These assets will be monitored and evaluated against a set of performance measures (including capital assets that are underutilized and/or vacant) and capital goals to maximize highest return on the dollar to support veteran needs. The following portfolio metrics have been established:

- Decrease operational costs;
- Reduce energy utilization;
- Decrease underutilized capacity;
- Increase intra/inter-agency and community-based sharing;
- Increase revenue opportunities;
- Maximize highest and best use;
- Safeguard assets

In 2004, VA requested authority to restructure its appropriations in order to bring them more in line with the Departments business lines. The accounts were also restructured to allow VA officials more flexibility and accountability when acquiring capital assets. This includes basing leasing versus construction decisions on sound business principles instead of funding availability.

For 2004, VA again introduced legislation that would allow the Department to dispose of, sell, transfer and/or exchange excess properties and retain the proceeds by establishing a Capital Asset Fund. This latter incentive will allow VA to better manage its underutilized or excess real property by improving its capability to dispose of unneeded property. Funds may also be used to pay for related significant costs such as environmental clean up and demolition. A majority of the proceeds received will be used to fund CARES capital needs. The improvements to VA's infrastructure will also allow dollars currently being spent on maintenance and operations to be diverted to enhance veterans' health care delivery.

Required Supplementary Stewardship Information

1. Heritage Assets

Heritage assets are properties that possess one or more of the following characteristics: historical or natural significance; cultural; educational or aesthetic value or significant architectural characteristics. The monetary value of heritage assets is often not estimable or relevant. By nature they are expected to be maintained in perpetuity.

VA has properties at medical centers and national cemeteries that meet the criteria for a heritage asset. During the reporting period, all maintenance expenses were recorded as incurred. Heritage assets are reported in terms of physical units. Generally, additions to VA's Heritage Asset inventory result from field station surveys, which identify items such as new collections or newly designated assets. Items are generally donated or existing VA assets designated as heritage. Most heritage assets are used for mission purpose and maintained in working order. Remaining items are mothballed.

Heritage Assets in Units

As of September 30,	2003	2002
Art Collections	30	33
Buildings and Structures	1,815	1,820
Monuments/Historic Flag Poles	969	245
Other Non-Structure Items	71	71
Archaeological	11	11
Cemeteries	157	157
Total Heritage Assets in Units	3,053	2,337

2. Non-Federal Physical Property

The VA Extended Care Facilities Grant Program assists states in acquiring facilities to provide domiciliary or nursing home care to veterans, and to expand, remodel, or alter existing buildings to provide domiciliary, nursing home, or hospital care to veterans in state homes. Currently, these grants may not exceed 65 percent of the total project cost.

VA's State Cemetery Grants Program is authorized to pay up to 100 percent of the cost of constructing and equipping state veterans cemeteries. States provide the land and agree to operate the cemeteries.

Grant Program Costs

For the years	2003	2002
State Extended Care Facilities	$ 121	$ 96
State Veterans Cemeteries	30	28
Total Grant Program Costs	$ 151	$ 124

3. Human Capital

Investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees. Educational programs assist active duty and reservist veterans, eligible under the MGIB or the Veterans Educational Assistance Program, as well as dependents of veterans who died of service-connected disabilities or whose service-connected disabilities were rated permanent and total. The Vocational Rehabilitation Program provides veterans, having a 10 percent or greater service-connected disability rating with evaluation services, counseling, and training necessary to assist them in becoming employable and maintaining employment to the extent possible.

Veterans and Dependents Education For the Years Ended September 30	2003	2002
Program Expenses		
Education and Training-Dependents of Veterans	$ 266	$ 234
Vocational Rehabilitation and Education Assistance	2,309	1,894
Administrative Program Costs	228	229
Total Program Expenses	$ 2,803	$ 2,357
Program Outputs (Participants)		
Dependent Education	64,582	53,888
Veterans Rehabilitation	71,549	69,634
Veterans Education	400,289	375,013

4. Health Professions Education

Title 38 U.S.C. mandates that VA assist in the training of health professionals for its own needs and for those of the Nation. By means of its partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the Nation. Each year, approximately 80,000 medical and other students receive some or all of their clinical training in VA facilities through affiliations with over 1,200 educational institutions including 107 medical schools. Many of these trainees have their health professional degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at VA.

Health Professions Education For the Years Ended September 30,	2003	2002
Program Expenses		
Physician Residents and Fellows	$ 404	$ 383
Associated Health Residents and Students	60	46
Instructional and Administrative Support	367	349
Total Program Expenses	$ 831	$ 778
Program Outputs		
Health Professions Rotating Through VA:	Estimated	Actual
Physician Residents and Fellows	28,000	28,006
Medical Students	16,000	15,982
Nursing Students	17,000	17,288
Associated Health Residents and Students	15,000	14,816
Total Program Outcomes	76,000	76,092

5. Research and Development

Investments in research and development (R&D) comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits. For FY 2003, VA's R&D general goal related to stewardship was to ensure that VA medical research programs met the needs of the veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to VA's health-care mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved. In addition, VHA researchers received grants from the National Institutes of Health in the amount of $391 million and $265 million in other grants during FY 2003. These grants were given directly to the researchers and are not considered part of the VA entity. They are being disclosed here as Required Supplementary Stewardship Information, but are not accounted for in the financial statements.

Program Expense
For the Year ended September 30,

	Basic	Applied	Development	2003 Total
Medical Research Service	$ 141	$ 80.7		$ 221.7
Rehabilitative Research and Development	3.1	27.5	20.3	50.9
Health Services Research and Development		61.5		61.5
Cooperative Studies Research Service		27		27
Medical Research Support		402.9		402.9
Prosthetic Research Support		4.7		4.7
Total Program Expenses	$ 144.1	$ 604.3	$ 20.3	$ 768.7

Program Expense
For the Year ended September 30,

	Basic	Applied	Development	2003 Total
Medical Research Service	$ 139	$ 70		$ 209
Rehabilitative Research and Development	3	24	15	42
Health Services Research and Development		52		52
Cooperative Studies Research Service		26		26
Medical Research Support		377		377
Prosthetic Research Support		4		4
Total Program Expenses	$ 142	$ 553	$ 15	$ 710

Research and Development Measures-Actual
Year ended September 30,

	2003	2002
Percent of Funded Research Projects Relevant to VA's Health-Care Mission	95.6%	88%
Number of Research and Development Projects	2,075	2,133

Required Supplementary Information

1. Deferred Maintenance

Deferred maintenance is classified as not performed when it should have been or as scheduled but delayed to a future period. It is VA policy to ensure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective manner; therefore, deferred maintenance is not applicable to them.

VA facilities reported their cost estimates for deferred maintenance by utilizing either the Condition Assessment Survey or the Total Life-Cycle Cost Method.

Deferred Maintenance

As of September 30,	2003	2002
General PP&E	$ 1,433	$ 1,045
Heritage Assets	30	37
Total Deferred Maintenance	$ 1,463	$ 1,082

Balances with Other Federal Entities

Intragovernmental Assets as of September 30, 2003

Trading Partners	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Treasury	$ 17,795	$ 13,941	$ -	$ 7
DoD - Defense Agencies			97	
All Other			99	89
Total Intragovernmental Assets	$ 17,795	$ 13,941	$ 196	$ 96

Intragovernmental Liabilities as of September 20, 2003

Trading Partners	Accounts Payable	Debt	Other
Treasury	$ 39	$ 2,854	$ 2,348
Other	22		1,158
Total Intragovernmental Liabilities	$ 61	$ 2,854	$ 3,506

Intragovernmental Earned Revenue and Related Cost (trade activity) For the Year Ended September 30, 2003

Trading Partner	Earned Revenue
DoD - Defense Agencies	$ 460
Air Force	59
Justice	25
All Other	234
Total Earned Revenue	$ 778
Related Cost	$ 723

Intragovernmental Non-Exchange Revenue
For the Year Ended September 30, 2003

Trading Partner	Transfers-Out
Treasury	$ 878

Schedule of Budgetary Activity
For the Year Ended September 30, 2003

	Total Outlays	Budgetary Resources	Obligations Incurred	Spending Authority from Offsetting Collections and Adjustments	Obligated Balance Sept. 30, 2002	Obligated Balance Sept. 30, 2003
VHA						
0160 Medical Care	$ 24,856	$ 26,726	$ 25,645	$ 254	$ 2,716	$ 3,351
0161 Medical & Prosthetic Research	364	479	421	57	118	119
All Other	376	1,769	908	283	500	649
Total	$ 25,596	$ 28,974	$ 26,974	$ 594	$ 3,334	$ 4,119
VBA						
0102 Compensation, Pension, & Burial Benefits	$ 28,021	$ 29,369	$ 28,191	$ -	$ 2,095	$ 2,266
0137 Readjustment Benefits	2,364	3,041	2,630	256	63	72
4025 Housing Credit Liquidating	(61)	81	53	141	4	(23)
4127 Direct Loan Financing	(167)	1,351	1,131	1,298	78	78
4129 Guaranteed Loan Financing	(967)	7,684	1,972	2,944	25	20
8132 National Service Life Insurance Fund	1,178	11,421	1,627	435	1,447	1,461
All Other	1,621	5,414	3,068	1,425	376	399
Total	$ 31,989	$ 58,361	$ 38,672	$ 6,499	$ 4,088	$ 4,273
NCA						
0129 National Cemetery Adm.	$ 125	$ 135	$ 129	$ -	$ 21	$ 25
All Other	25	10	27	-	35	37
Total	$ 150	$ 145	$ 156	$ -	$ 56	$ 62
ADM						
0151 General Operating Expenses	$ 1,221	$ 1,864	$ 1,719	$ 481	$ 227	$ 244
All Other	(277)	2,385	1,828	1,999	217	323
Total	$ 944	$ 4,249	$ 3,547	$ 2,480	$ 444	$ 567
Total of all Business Lines	$ 58,679	$ 91,729	$ 69,349	$ 9,573	$ 7,922	$ 9,021

Segment Information

Condensed Balance Sheet as of September 30	Supply Fund 2003	Supply Fund 2002	Enterprise Fund 2003	Enterprise Fund 2002
Assets				
Fund Balance with Treasury	$ 775	$ 462	$ 90	$ 73
Accounts Receivable, Net	220	146	28	14
General Property, Plant and Equipment	5	5	24	22
Other Assets Including Inventory	25	34	8	4
Total Assets	$ 1,025	$ 647	$ 150	$ 113
Liabilities and Net Position				
Accounts Payable	$ 49	$ 32	$ 8	$ 3
Deferred Revenues	438	226	-	-
Other Liabilities	380	251	34	30
Total Liabilities	867	509	42	33
Cumulative Results of Operations	158	138	108	80
Total Liabilities and Net Position	$ 1,025	$ 647	$ 150	$ 113
Condensed Net Cost Information				
Total Program Costs	$ 1,375	$ 1,095	$ 188	$ 115
Earned Revenues				
Intra-Departmental	(448)	(447)	(185)	(129)
Other Federal Entities	(911)	(627)	(29)	(8)
Non-Federal	(36)	(44)	-	-
Total Earned Revenues	$ (1,395)	$ (1,118)	$ (214)	$ (137)
Net Program Costs	$ (20)	$ (23)	$ (26)	$ (22)

2. Enterprise Fund Services

VA was approved by OMB in May 1996 as one of six pilot franchise fund agencies operating within the Executive Branch of Government. VA's Franchise Fund was established as a revolving fund and began operations in FY 1997. By law, the business lines within the Fund can only sell to Federal entities.

The VA Franchise Fund supports VA's mission by supplying common administrative services to both VA and other federal entities at competitive prices. Most of our customers come from within VA, which accounted for 86 percent of our FY 2003 revenue. VHA is the largest customer of five of the six VA Enterprise Centers (Austin Automation Center, Financial Services Center, Law Enforcement Training Center, Security and Investigations Center and VA Records Center and Vault), and VBA is the largest customer for the Debt Management Center.

The Fund accounts for its funds in six lines of business (VA Enterprise Centers) and one administrative organization. A brief description of each center is listed below:

Austin Automation Center (AAC)

Located in Austin, TX, the AAC provides comprehensive e-government solutions to match the critical needs of VA and other Federal agency customers, from managing data to automating business processes. The AAC supports over 100 customer applications that provide mission-critical data for financial management, payroll, human resources, logistics, medical records, eligibility benefits and supply functions. In addition, the AAC offers a full complement of technical solutions (platform-hosting, acquisition services, application management, total information assurance, customer business continuity,

configuration management, and data conversion and data interfacing) to best meet customer's varied information technology projects.

Debt Management Center (DMC)

Located in St. Paul, MN, the DMC is a centralized facility that provides direct collection of delinquent consumer debt owed to VA. The DMC also provides administrative support for a local Cooperative Administrative Support Unit.

Financial Services Center (FSC)

Located in Austin, TX, the FSC provides a full-range of financial services for VA and other Federal agencies including financial reports and accounting, invoice payments, credit card payments, discount subsistence purchases, payroll processing, travel payment processing, electronic commerce/electronic data interchange, automated document management, audit recovery, consulting, and training.

Law Enforcement Training Center (LETC)

Located in Little Rock, AR, the LETC provides special training for police officers working in a health care or service-oriented environment. Emphasizing training in medical center patient situations, the LETC is available to approximately 2,400 law enforcement personnel working at VHA health care facilities and to Federal law enforcement professionals at other Federal agencies.

VA Records Center and Vault (VA RC&V)

Located in the Midwest, the VA RC&V provides records storage, protection, and retrieval services for official Federal records. The facility has been certified by the NARA to operate as an agency records center, approved by the Defense Logistics Agency to store classified material, and certified by the Department of Energy to store restricted records.

Security and Investigations Center (S&IC)

Located in Washington, DC, the S&IC provides quality and timely background investigations and adjudications for employees and contractors in sensitive positions for all VA entities nationwide. The S&IC also issues and manages employee identification badges and provides fingerprint processing for VA employees and other Federal customers in the Washington, DC area.

Enterprise Fund Office (EFO)

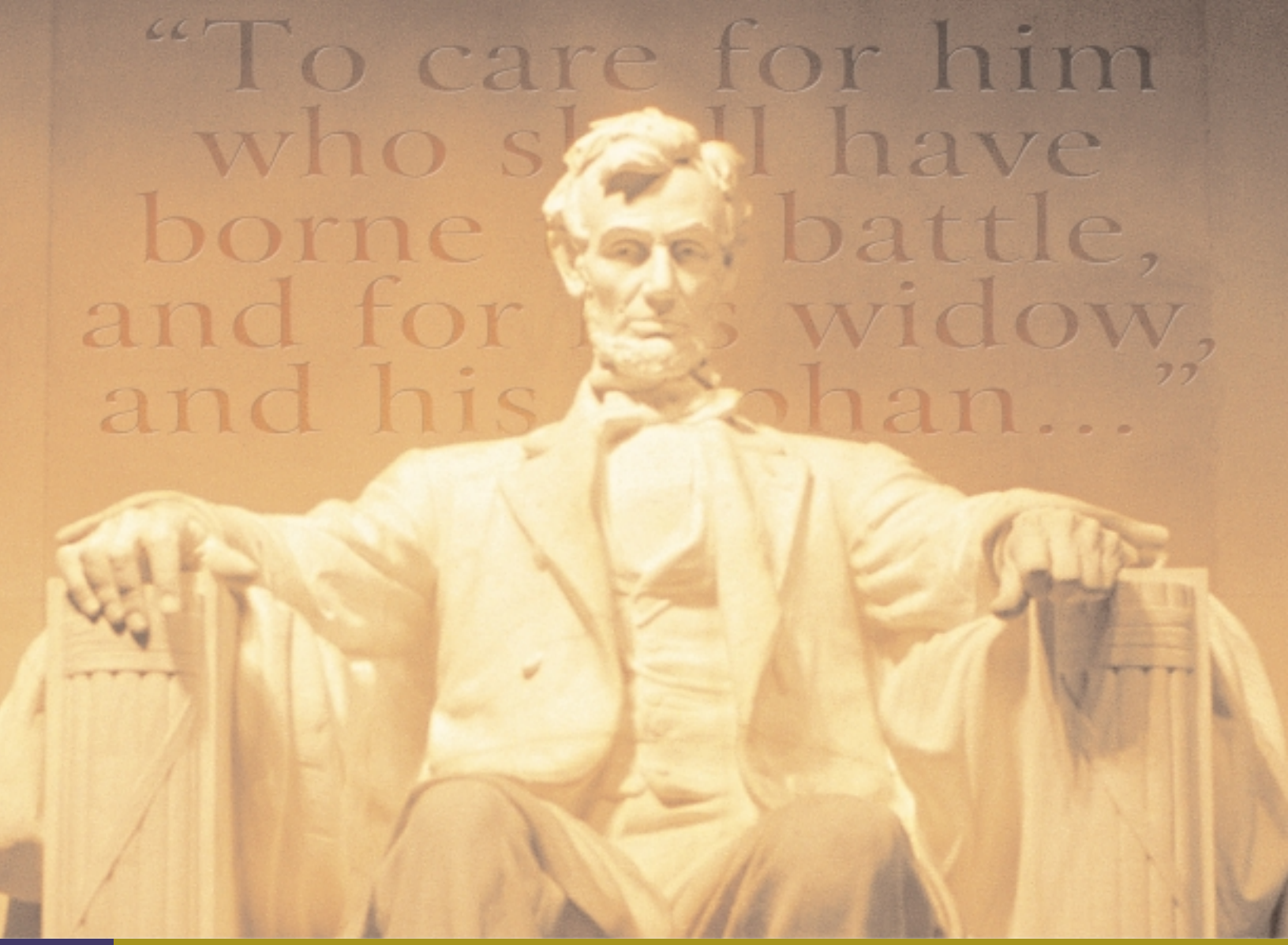
The VA Enterprise Centers are supported by the EFO, which is responsible for the overall fund operations including administering the financial resources of the fund, coordinating all business activities, and serving as the liaison between the Enterprise Centers, their customers, and the Board of Directors.

Its services allow VA and other government agency customers to conserve their budgetary resources through new innovative methods and/or efficiencies of scale with the same or lower unit costs, while improving the quality of services provided. As the Fund successfully markets its services to other Federal agencies, programs in those agencies will derive similar benefits.

For more information, visit the VA Enterprise Centers online at www.va.gov/fund.

3. Supply Fund Services

Supply Fund functions include contracting for medical supplies, equipment and services; stocking, repairing, and distributing supplies, medical equipment, and devices; providing forms, publications, and a full range of printing and reproduction services; training VA medical acquisition, supply, processing, and distribution personnel; and increasing small and disadvantaged business participation in VA contracts. The two largest customers for the Supply Fund are VA and DoD, but the Fund also has significant sales to other Federal agencies including the Department of Health and Human Services.



Appendices

Key Measure Data Appendix

Key Performance Measure	Definition	Data Source	
Percent of veterans discharged from a Domiciliary Care for Homeless Veterans (DCHV) Program or Health Care for Homeless Veterans (HCHV) Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement.	VA administers three special programs for homeless veterans: Domiciliary Care for Homeless Veterans (DCHV), Community Health Care for Homeless Veterans (HCHV) and the Grant Per Diem Program. These programs provide outreach, psychosocial assessments, referrals, residential treatments, and follow-up case management to homeless veterans. The numerator is the number of veterans who are discharged from these programs directly to independent living or secure housing in the community. Independent living is defined as residence in one's own apartment, rooms, or house. Secured living arrangement is defined as half-way house, transitional housing, or domiciliary. The denominator is the total number of veterans discharged.	Discharge form completed by local case managers at discharge for every homeless veteran who has entered a DCHV, community based residential care contract program, or VA funded community based program	
Compensation and Pension: Rating-related actions - average days to process	The average elapsed time (in days) it takes to complete claims that require a disability decision is measured from the date the claim is received by VA to the date the decision is made including the following types of claims: Original Compensation, with 1-7 issues (End Product (EP) 110), Original Compensation, 8 or more issues (EP 010), Original Service Connected Death Claim (EP 140), Reopened Compensation Claims (EP 020), Review Examination (EP 310), Hospitalization Adjustment (EP 320). For Pension cases, the category includes original pension claims (EP 180) and reopened pension claims (EP 120). The measure is calculated by dividing the total number of days recorded from receipt to completion by the total number of cases completed.	The source of data for this measure is the Benefits Delivery Network (BDN). The data are manually input by employees during the claims process. Results are also extracted from BDN by VA managers. C&P Service owns the data.	
Compensation and Pension: Rating-related actions - average days pending	The measure is calculated by dividing the total number of days recorded, from receipt to the last day of the current month, for all the cases yet to be completed in the specified end product categories, by the total number of cases yet to be completed in the specified categories.	The source of data for this measure is the Benefits Delivery Network (BDN).	
Compensation and Pension: National accuracy rate (core rating work)	Processing accuracy for claims that normally require a disability or death determination. Review criteria include: addressing all issues, Veterans Claims Assistance Act (VCAA)-compliant development, correct decision, correct effective date and correct payment date if applicable. Accuracy rate is determined by dividing the total number of cases with no errors in any of these categories by the number of cases reviewed.	Findings are entered in an Intranet database maintained by the Philadelphia LAN Integration Team and downloaded monthly to the PAI information storage database. C&P Service owns the data.	

	Frequency	Data Limitations	Verification and Validation
	Quarterly	None	The discharge reports are completed by the clinician case managers/liaisons at the facility level. All (100%) of these reports are reviewed by the Homeless Program Staff prior to transmission to Northeast Program Evaluation Center (NEPEC). NEPEC conducts additional validity checks in collaboration with the Homeless Program Staff prior to entering the data into the database.
	Data are collected daily as awards are processed by employees. Results are tabulated at the end of the month and annually.	None	Data are analyzed weekly and results are recorded quarterly. Compensation and Pension Service calls the cases in for review from the Regional Offices with the highest rates of questionable practices.
	The element is a snapshot of the age of the inventory at the end of each processing month as well as annually.	None	Data are analyzed weekly and results are recorded quarterly by Compensation and Pension Service. Cases are called in for review from the Regional Offices with the highest rates of questionable practices.
	Case reviews are conducted daily. The review results are tabulated monthly and annually.	None	GAO has reviewed the process and reliability in detail. Two individuals from the Systematic Technical Staff examine each case reviewed. Any inconsistencies are addressed with training.

Key Performance Measure	Definition	Data Source	
Average number of days to obtain service medical records	Since this measure is not due to be tracked until FY 2005, a final definition is not yet available.	Records Management Center (RMC) and BDN	
Vocational Rehabilitation and Employment Rehabilitation rate	The number of veterans who acquire and maintain suitable employment and leave the program, divided by the total number leaving the program. For those veterans with disabilities that make employment unfeasible, Vocational Rehabilitation and Employment (VR&E) seeks to assist them on becoming independent in their daily living.	VBA balanced scorecard and VR&E management reports	
Percent of VA Medical Centers that provide electronic access to health information provided by DoD on separated service persons.	The numerator is the number of VHA Medical Centers that have installed the necessary computer software to provide electronic access to health information provided by DoD on separated service persons. The denominator is all VHA Medical Centers.	Established linkage between VHA Medical Centers and DoD sites is monitored and confirmed by the respective VHA and DoD information technology program offices.	
Percent of claimants who are Benefits Delivery at Discharge participants	The percent of separatees filing claims at a Benefits Delivery at Discharge (BDD) site is calculated by dividing the number of BDD claims received by the participating stations by the number of separations at the participating military sites.	The sources of this data are the Regional Offices and the BDD sites. Data are now compiled through an Intranet site.	
Average days to complete original and supplemental education claims	Elapsed time, in days, from receipt of a claim in the regional processing office to closure of the case by issuing a decision. Original claims are for first-time use of this benefit. Any subsequent school enrollments are considered a supplemental claim.	Education claims processing timeliness is measured by using data captured automatically through VBA's Benefits Delivery Network. This information is generated through the VBA data warehouse generated reports. (Coin-Door 1016).	

	Frequency	Data Limitations	Verification and Validation
	Being developed	Pending	A specific methodology for verifying and validating the data collected has not been determined.
	Quality Assurance Reviews evaluate the validity and reliability of data and are conducted twice a month. A review of balanced scorecard data is completed monthly.	None	Quality assurance reviews are completed by each station and VR&E Service. The quality assurance program was set up to review samples of cases for accuracy and to provide scoring at the RO level. In response to a FY 2000 IG Audit, the following items were undertaken to address the IG recommendations for improving the accuracy of data used to compute the rehabilitation rate: 1) Quality Assurance Satellite Broadcast was held on May 7, 2003. 2) VR&E Letter 28-03-03, Policies to Improve Accuracy of Data Used to Compute Rehabilitation Rate, was sent out to the field on April 30, 2003. 3) VR&E Letter 28-03-12, Recent Changes to VR&E Quality Assurance Program, confirms that VR&E service reviews 64 cases per station each year and all field stations are conducting local QA Reviews on 10% of their caseload effective November 2002. 4) VR&E Outcome Accuracy measure has been added to the VARO Directors' performance standards. 5) Letter was sent requiring all field VR&E Officers' signature on all outcome cases.
	Quarterly	Data do not reflect the degree to which the Federal Health Information Exchange/Government Computer-based Patient Record has been implemented but they do accurately reflect the completion of the technological linkage and accessibility of information for sharing purposes.	Information Technology Program Offices in VHA verify and validate the installation using the Package and Patch Installation Report that monitors all software installed at every medical facility. The Remote Data Views patch, once loaded, verifies that FHIE is functioning. This validates that the measure has been met.
	Monthly	Pending	Data are calculated monthly, quarterly, and annually by Compensation and Pension Service. There is a program evaluation study pending to determine the effectiveness of BDD program.
	Monthly	None	The Education Service staff in VA Central Office confirms reported data through ongoing quality assurance reviews conducted on a statistically valid sample of cases. Dates of claims are reviewed in the sample cases to ensure they are reported accurately. Each year, Central Office staff reviews a sample of cases from each of the four RPOs. Samples are selected randomly from a database of all quarterly end products. The results are valid at the 95 percent confidence level. Reviewers validate dates of claims for all cases reviewed.

Key Performance Measure	Definition	Data Source	
Foreclosure avoidance through servicing (FATS) ratio	The FATS ratio measures the effectiveness of VA supplemental servicing of defaulted guaranteed loans. The ratio measures the extent to which foreclosures would have been greater had VA not pursued alternatives to foreclosure.	Data are extracted from the Loan Service and Claims (LS&C) System. This system is used to manage defaults and foreclosures of VA-guaranteed loans.	
Chronic Disease Care Index II	The percent compliance is an average of 21 separate indicators that reflect care given for 7 major chronic diseases: ischemic heart disease, hypertension, chronic obstructive pulmonary disease, diabetes mellitus, congestive heart failure, major depressive disorder, and tobacco use cessation. Each numerator is the number of patients in the random sample who actually received the intervention they were eligible to receive. The denominator for the calculation is a random sample of the number of patients who are eligible for the intervention. The overall index is comprised of the percent compliance for each indicator summed and divided by the number of individual indicators.	External contractor reviews statistically valid random sample of medical records.	
Prevention Index II	This index is an average of 9 separate indicators that reflect care given for influenza and Pneumococcal pneumonia immunization, screening for tobacco consumption, alcohol abuse, breast cancer, cervical cancer, colorectal cancer, and cholesterol levels, and providing education of prostate cancer screening. Each indicator's numerator is the number of patients in the random sample who actually receive the intervention they were eligible to receive. The denominator is the number of patients in the random sample who were eligible to receive the intervention.	External contractor reviews statistically valid random sample of medical records.	
Percent of patients rating VA health care service as very good or excellent: Inpatient and Outpatient	The survey consists of a sample of inpatients and a sample of outpatients who respond to a question on the semi-annual inpatient and the quarterly outpatient surveys. Denominator is the total number of patients sampled who answered the question " Overall how would you rate your care in VHA." Numerator is those patients who answered 'very good' or 'excellent' only. The numerator does not include the response 'good'.	Survey of Health Experiences of Patients	
Average waiting time for new patients seeking primary care clinic appointments (in days)	The waiting time is the average number of days between when the initial primary care appointment is placed into the scheduling software and the date of the appointment.	**V**ist**A** scheduling software	

	Frequency	Data Limitations	Verification and Validation
	Monthly	There are five components that make up the FATS ratio. The four involving financial transactions are auditable. The fifth component, successful interventions, is based on employee interpretation of established criteria and is subject to misunderstanding.	Data for the FATS ratio are validated by a review of a sample of case files during survey visits by the Loan Guaranty Quality Control staff to its Regional Loan Centers.
	Data are collected quarterly with a cumulative average determined annually.	None	Review is performed by an external contractor to ensure accuracy of findings. In addition, validity and reliability of the collected data are evaluated using accepted statistical methods along with inter-rater reliability assessments that are performed each quarter.
	Data are collected quarterly with a cumulative average determined annually	None	Review is performed by an external contractor to ensure accuracy of findings. In addition, validity and reliability of the collected data are evaluated using accepted statistical methods along with inter-rater reliability assessments that are performed each quarter.
	Data collected monthly and reported quarterly and annually	None	Routine statistical analysis is performed to evaluate the data quality, survey methodology and sampling processes. Questions are routinely analyzed to determine what are the areas where change would have the biggest impact in overall quality perception by patients
	Monthly	Calculated using VistA scheduling software. A new patient is defined as a patient not seen in the prior 24 months at the facility where the appointment is being scheduled in the primary care Decision Support System (DSS) stop series. The assumption that every new patient wants the next available appointment may overstate waiting times to some degree but not significantly.	This is calculated directly from the computer so does not require interpretation from an employee to assure accurate data collection.

Key Performance Measure	Definition	Data Source	
Average waiting time for next available appointment in specialty clinic (in days)	The waiting time is the average number of days between when the patient's specialty care appointment is placed into the scheduling software and the date of the appointment. This is a composite number that reflects the high-volume or problem-prone specialty clinics of urology, cardiology, audiology, orthopedics, and eye care (both optometry and ophthalmology)	VistA scheduling software	
Increase the aggregate of VA, state, and community nursing home and non-institutional long term care as expressed by average daily census: Institutional and Non-institutional	The aggregate number for Institutional Care is the Average Daily Census of veterans cared for in VA Nursing Home Programs, State Veterans Home Programs and Contracted Community Nursing Homes. The number for Non-Institutionalized Care is the Average Daily Census of veterans enrolled in programs that support care delivery in the patient's home such as Home and Community-Based Care programs (Home-Based Primary Care, Contract Home Health Care, Adult Day Health Care (VA and Contract), and Homemaker/Home Health Aide Services).	This measure is the average daily census of the institutional nursing home care programs and the non-institutional home and community home-based non-institutional care available for eligible veterans. ADC are reported separately.	
Average days to process insurance disbursements	Insurance disbursements are death claims paid to beneficiaries, policy loans, and cash surrenders requested by policyholders. Average processing days are a weighted composite for all three types of disbursements based on the number of end products and timeliness for each category. Processing time begins when the veteran's application or beneficiary's fully completed claim is received and ends when the internal controls staff approves the disbursement. The average processing days for death claims is multiplied by the number of death claims processed. The same calculation is done for loans and cash surrenders. The sum of these calculations is divided by the sum of death claims, loans, and cash surrenders processed to arrive at the weighted average processing days for disbursements.	Data on processing time are collected and stored through the Statistical Quality Control (SQC) Program and the Distribution of Operational Resources (DOOR) system.	
Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence	The measure is the number of veterans served by a burial option divided by the total number of veterans, expressed as a percentage. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national or state veterans cemetery that is available within 75 miles of the veteran's place of residence.	From 2000 through 2002, the number of veterans and the number of veterans served were extracted from the VetPop2000 model using updated 1990 census data. For 2003, the number of veterans and the number of veterans served were extracted from a revised VetPop2000 model using 2000 census data.	

	Frequency	Data Limitations	Verification and Validation
	Monthly	Calculated using VistA scheduling software. A new patient is defined as a patient not seen in the prior 24 months at the facility where the appointment is being scheduled in the primary care Decision Support System (DSS) stop series. The assumption that every new patient wants the next available appointment may overstate waiting times to some degree but not significantly.	This is calculated directly from the computer so does not require interpretation from an employee to ensure accurate data collection.
	Monthly	The data are drawn from numerous sources as appropriate (DSS, CDR, Fee, State Veterans Home Report, etc.) and the definitions of ADC necessarily vary to some degree among the sources. The program office has done extensive work with the field to ensure the equitability of the ADC calculations.	The data are collected and collated by VHA's Office of Geriatrics and Extended Care (G&EC) Strategic Healthcare Group. The data and reporting sources have remained constant for the past couple of years, thereby enabling the office to validate current data against past data based on trending of the values. Any unexpected change in data trends triggers data validation and correction (if necessary) between the G&EC and the facilities involved.
	Monthly	None	The Insurance Service periodically evaluates the SQC Program to determine if it is being properly implemented. The composite weighted average processing days measure is calculated by the Insurance Service and is subject to periodic reviews. Timeliness information is considered to be valid for management of operations.
	Recalculated annually or as required by the availability of updated veteran population census data. Projected openings of new national or state veterans cemeteries and changes in the service delivery status of existing cemeteries also determine the veteran population served.	Provides performance data at specific points in time as veteran demographics change.	In 1999, the OIG performed an audit assessing the accuracy of the data used for this measure. Data were revalidated in the 2002 report entitled Volume 1: Future Burial Needs, prepared by an independent contractor as required by the Veterans Millennium Health Care and Benefits Act, P.L. 106-117.

Key Performance Measure	Definition	Data Source	
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	The number of survey respondents who agree or strongly agree that the quality of service received from national cemetery staff is excellent divided by the total number of survey respondents, expressed as a percentage. The survey collects data from family members and funeral directors who have recently received services from a national cemetery.	NCA's Survey of Satisfaction with National Cemeteries	
Percent of graves in national cemeteries marked within 60 days of interment	The number of graves in national cemeteries for which a marker has been set at the grave or the reverse inscription completed within 60 days of the interment divided by the number of interments, expressed as a percentage.	NCA'S Burial Operations Support System (BOSS) as input by field stations.	
Percent of research projects devoted to the Designated Research Areas	The numerator is the number of research projects that fall into at least one of the designated areas. The denominator is the total of all funded research projects, which includes HSR&D, Medical Research Service, Cooperative Studies Program, and Rehabilitation Research and Development Service.	Data are collected by the Office of Research and Development from approved ongoing studies during the reporting period.	
Percent of respondents who rate national cemetery appearance as excellent	The number of survey respondents who agree or strongly agree that the overall appearance of the national cemetery is excellent divided by the total number of survey respondents, expressed as a percentage. The survey collects data from family members and funeral directors who have recently received services from a national cemetery.	NCA's Survey of Satisfaction with National Cemeteries	
Ratio of collections to billings	The collection to billings ratio is a calculation based on the total cumulative fiscal year collections divided by the total cumulative billings. The numerator is the total cumulative collections from both co-payments by the veteran and payments from bills to insurance companies. The denominator is the total cumulative billings.	The cumulative collections and billings are extracted from the National Data Base in the Allocation Resource Center (ARC).	
Dollar value of sharing agreements with DoD ($ in millions)	VA and DoD are combining their resources to combine purchasing power and eliminate redundancies. This measure is based on the total dollar value of sharing agreements VA has entered into with DoD.	Data are collected and reported by the VHA Medical Sharing Office based on information reported by VISNs through the VISN Support Services Center. The dollar volume for pharmaceuticals and medical supplies is based on annual estimates of procurements based on historical procurement patterns.	

	Frequency	Data Limitations	Verification and Validation
	Annually	None	VA Headquarters staff oversees the data collection process and provides an annual report at the national level. MSN and cemetery level reports are provided to NCA management. The mail-out survey provides statistically valid performance information at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.
	Monthly	None	VA Headquarters staff oversees the data collection process to validate its accuracy and integrity. Monthly and fiscal-year-to-date reports are provided at the national, MSN, and cemetery levels.
	Annually	The data are based on expert peer review of the project, which includes specific focus on determining if the project falls within the designated areas. This is an objective decision, but is based on well-defined parameters.	Peer review findings of projects are reviewed by the Office of Research and Development.
	Annually	None	VA Headquarters staff oversees the data collection process and provides an annual report at the national level. MSN and cemetery level reports are provided to NCA management. The mail-out survey provides statistically valid performance information at the national and MSN levels and at the cemetery level for cemeteries having at least 400 interments per year.
	Quarterly	The data are limited by the restrictions placed on the program as to allowable collections. There has been a history of difficulties with collections from certain third-party payors that have required District Counsel opinion, which have necessarily delayed collections. Certain first-party payor issues have also caused delay in billing and collection and thus have impacted the data.	Data are routinely validated and verified by program personnel and ARC for accuracy.
	Quarterly	Data are self-reported by the VISNs, but felt to be accurate.	Data are validated by the VISNs through their normal accounting system.

Definitions

Please note: Key Measures are defined in the Key Measure Data Appendix.

Accounts payable
The money VA owes to vendors and other Federal entities for products and services purchased. This is treated as a liability on the balance sheet. (Financial)

Accounts receivable
The amount of money that is owed to VA by a customer (including other Federal entities) for products and services provided on credit. This is treated as a current asset on the balance sheet and includes such items as amounts due from third-party insurers for veterans' health care and from individuals for compensation, pension, and readjustment benefit overpayments. (Financial)

Accuracy of decisions (Services)
Percent of cases completed accurately for veterans who receive Chapter 31 (disabled veterans receiving vocational rehabilitation) services and/or educational/vocational counseling benefits under several other benefit chapters. Accuracy of service delivery is expressed as a percent of the highest possible score (100) on cases reviewed. (VR&E)

Accuracy of program outcome
This measure seeks to ensure the accuracy of decisions made to declare a veteran rehabilitated or discontinued from a program of services. (VR&E)

Acute Bed Days of Care (BDOC)/1000
A measure that evaluates cost efficiency and utilization patterns by evaluating the number of beds in use for the full population of unique patients served. This ratio assists in assuring that there are not inappropriate admissions. (Medical Care)

Allowance
The amounts included in the President's budget request or projections to cover possible additional proposals, such as statutory pay increases and contingencies for relatively uncontrollable programs and other requirements. As used by Congress in the concurrent resolutions on the budget, allowances represent a special functional classification designed to include amounts to cover possible requirements, such as civilian pay raises and contingencies. Allowances remain undistributed until they occur or become firm, then they are distributed to the appropriate functional classification(s). (Financial)

Appeals decided per FTE
A basic measure of efficiency determined by dividing the number of appeals decided by the total BVA full time equivalent (FTE). (BVA)

Appeals resolution time (in days)
The average length of time it takes the Department to process an appeal from the date a claimant files a Notice of Disagreement (NOD) until a case is finally resolved, including resolution at a regional office or by a final decision by the Board. (BVA and C&P)

Apportionment
A distribution made by the Office of Management and Budget of amounts available for obligation in an appropriation or fund account. Apportionments divide amounts available for obligation by specific time periods (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred. (Financial)

Appropriation
The specific amount of money authorized by Congress for approved work, programs, or individual projects. (Financial)

Appropriation Authority
The authority granted by Congress for the agency to spend government funds. (Financial)

Average cost of placing participant in employment
This performance measure is a Common Measure whose definition is under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2004. (VR&E)

Average hold time in seconds
The average length of time (in seconds) that a caller using the toll-free service number waits before being connected to an insurance representative. (Insurance)

Average waiting time for next available appointment in primary care clinics (in days)
This measure is calculated using the **V**ist**A** scheduling software and takes

the average of primary care appointments that are designated as 'next available' and is measured from the date of the request to the date the appointment is actually made. (Medical Care)

Average waiting time for patients seeking a new specialty clinic appointment (in days)

This measure is calculated using the **V**ist**A** scheduling software and takes the average of specialty clinic appointments that are designated as 'next available' and is measured from the date of the request to the date the appointment is actually made. The specialty clinics included in this measure are audiology, cardiology, eye care (both ophthalmology and optometry), urology, and orthopedics. (Medical Care)

Balance sheet

A summary of all the assets the agency owns and the liabilities owed against those assets as of a point in time (the end of the fiscal year for VA is September 30). This statement always shows two consecutive fiscal year snapshots so the reader can compare the information. There is no "owners' equity" in a federal agency, as there is in a non-government company. However, we instead report our "net position," which is the amount of unexpended appropriation authority. (Financial)

Balanced Scorecard: Quality-Access-Satisfaction-Cost

A composite score of indicators within access, cost, quality, and satisfaction domains. (Medical Care)

Budget Authority

The authority provided by law to enter into obligations that will result in immediate or future outlays involving Federal Government funds, except that budget authority does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, authority to borrow, and contract authority. Budget authority may be classified by the period of availability (1-year, multiple-year, no-year), by the timing of congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite). (Financial)

Budgetary resources

Budgetary resources are forms of authority given to an agency allowing it to incur obligations. Budgetary resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations. (Financial)

BVA cycle time

BVA cycle time measures the time a case spends at the Board, other than the time the case file is in the possession of a Veterans Service Organization. (BVA)

CARES – Capital Asset Realignment for Enhanced Services

The program to assess veteran health care needs in VHA Networks, identify service delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the delivery of health care services. (Medical Care)

Chief Financial Officers Act of 1990

Legislation enacted to improve the financial management practices of the Federal government and to ensure the production of reliable and timely financial information for use in the management and evaluation of Federal programs. (Financial)

Chronic Disease Care Index II (Special Populations)

The index is based on the performance of specific processes, provision of certain clinical services, or achievement of certain (proxy) outcomes for which the medical literature has documented evidence of a relationship to good health outcomes. The CDCI II measures how well VA follows nationally recognized clinical guidelines for treatment and care of patients with one or more high-volume diagnoses. The same overall index is then evaluated for those patients who meet the definition of a special population as a sub-group. (Medical Care)

Compliance survey completion rate

The percentage of compliance surveys completed compared with the number of surveys scheduled at the beginning of the fiscal year. (Education)

Cost – Average cost per unique patient (total federal and other obligations)

A ratio of total obligations and unique patients served. (Medical Care)

Cost per case

A unit decision cost derived by dividing BVA's total obligational authority by the number of decisions produced. (BVA)

Cost per patient

The average cost per unique patient converted to constant dollars. (Medical Care)

Cumulative number of kiosks installed at national and state veterans cemeteries

The total number of kiosk information centers installed at national and state veterans cemeteries to assist visitors in finding the exact gravesite locations of individuals buried there. In addition to providing the visitor with a cemetery map for use in locating the

gravesite, the kiosk information center provides such general information as the cemetery's burial schedule, cemetery history, burial eligibility, and facts about the National Cemetery Administration. (Burial)

Cumulative percent of competitive sourcing of commercial activities

Pursuant to the Federal Activities Inventory Reform (FAIR) Act, VA and OMB agreed to a VA-specific competitive sourcing plan in April 2003. In 2002 and 2003, this performance measure was calculated as the cumulative percentage of FTEs competed under competitive sourcing studies against the total number of commercial positions from the VA FAIR Act Inventory. Starting in 2004, this performance measure will be calculated as the cumulative percentage of FTEs competed under competitive sourcing studies against the total number of commercial positions in VA's OMB-approved plan. (Departmental Management)

Customer satisfaction

Customer satisfaction scores (measured on a scale of one through five, with five being the highest possible score) are based on surveys returned to OIG by the principals impacted by audits, investigations, contract reviews, and healthcare inspections. In instances where customer surveys are returned with lower than anticipated ratings, management may follow up with survey participants to identify any issues that caused low ratings and possible solutions. (OIG)

Customer satisfaction – high ratings

Nationally, the percentage of respondents to the education customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the way VA handled their education benefits claim. (Education)

Customer satisfaction (Survey)

Percent of veterans who answered "very satisfied" or "somewhat satisfied" overall with the VR&E program (of those who completed or withdrew from the program). (VR&E)

Decrease IT maintenance spending by 5% and increase modernization spending by 5%

Decrease the amount spent on IT maintenance projects and use the recovered dollars to refinance development, modernization, and enhancement projects. (Departmental Management)

Deficiency free decision rate

This goal is based on a random sampling of approximately 5 percent of Board decisions. Decisions are checked for deficiencies in the following categories: identification of issues, findings of fact, conclusions of law, reasons and bases/rationale for preliminary orders, and due process. (BVA)

Efficiency – Annual number of outpatient visits per medical worker

This is a 'common measure' as defined by OMB and is a ratio of all outpatient visits against the number of clinical full time equivalent employees. It indirectly relates to efficiency. This measure is limited in that overall panel size and capacity are needed for a complete picture of productivity. (Medical Care)

Exchange Revenue

Exchange revenues arise when a Federal entity provides goods and services to the public or to another government entity for a price. (Financial)

Favorable IG audit opinion

Each year, the IG conducts an audit of each Insurance program to determine if assets, liabilities, income, and expenses are reported properly in the CFO statements. This measure indicates whether the Insurance Program receives a favorable opinion on the audit. (Insurance)

Federal Credit Reform Act of 1990

Legislation enacted to improve the accounting for costs of federal credit programs. (Financial)

Federal Financial Management Improvement Act (FFMIA)

The FFMIA requires agencies to produce timely and reliable financial statements that demonstrate their compliance with Federal financial management systems requirements, Federal accounting standards, and the U.S. government standard general ledger. If an agency believes its systems are not FFMIA-compliant, it must develop a remediation plan to achieve compliance within 3 years. (Financial)

Federal Managers' Financial Integrity Act (FMFIA) of 1982

Legislation that requires Federal agencies to establish processes for the evaluation and improvement of financial and internal control systems in order to ensure that management control objectives are being met. (Financial)

Franchise Fund

VA's fund is comprised of six enterprise centers that competitively sell common administrative services and products throughout the Federal Government. The funds are deposited into the Franchise Fund. The Centers' operations are funded solely on a fee-for-service basis. Full cost recovery ensures they are self-sustaining. (Departmental Management)

Fund Balance with the Treasury
The aggregate amount of funds in VA's accounts with the Department of the Treasury for which we are authorized to make expenditures and pay liabilities. This account includes clearing account balances and the dollar equivalent of foreign currency account balances. (Financial)

Government Management Reform Act of 1994
Legislation enacted to provide more effective and efficient executive branch performance in reporting financial information to Congress and committees of Congress. (Financial)

Heritage Assets
Heritage Assets are unique and are generally expected to be preserved indefinitely. Heritage assets may have historical or natural significance; be of cultural, educational, or artistic importance; or have significant architectural characteristics. (Financial)

High customer ratings
The percent of insurance customers who rate different aspects of insurance services in the highest two categories, based on a 5-point scale, using data from the insurance customer survey. (Insurance)

Increase 1st and 3rd Party collections
Medical care received within VHA has a co-payment attached in some cases. This co-payment is referred to as 1st party collections. In addition, for veterans who have other insurance, as appropriate, those insurance companies are billed for services. Those collections are referred to as 3rd party collections. (Medical Care)

Increase the number of faith-based/community organizations providing services to homeless veterans
VA believes that faith-based organizations are a dynamic and effective community resource to assist in efforts to aid homeless veterans. To that end, VA actively encourages these entities to apply for grants under VA's Homeless Providers Grant & Per Diem program. VA will monitor the pool of applicants after selections are made to determine if the number of faith-based applicants and awardees has increased. (Departmental Management)

Intragovernmental assets
These assets arise from transactions among Federal entities. These assets are claims of the reporting entity against other Federal entities. (Financial)

Intragovernmental liabilities
These liabilities are claims against the reporting entity by other Federal entities. (Financial)

Inventory
An inventory is a tangible personal property that is (i) held for sale, including raw materials and work in process, (ii) in the process of production for sale, or (iii) to be consumed in the production of goods for sale or in the provision of services for a fee. (Financial)

Low customer ratings
The percent of insurance customers who rate different aspects of insurance services in the lowest two categories, based on a 5-point scale, using data from the insurance customer survey. (Insurance)

Maintain FY 2004 IT Budget at the same level as the rebaselined FY 2003 budget plus inflation
Capping the IT budget to the FY 2003 rebaselined amount plus the amount that covers inflation for the year. (Departmental Management)

Maintain VA IT Enterprise Architecture
Maintain a *One VA* information technology framework that supports the integration of information across business lines and provides a course of consistent, reliable, accurate, and secure information to veterans and their families, employees, and stakeholders. (Departmental Management)

Management (or internal) controls
Safeguards (organization, policies, and procedures) used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making. (Financial)

Material weakness
A reportable condition in which the design or operation of the specific internal control does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the consolidated financial statements being audited. This condition may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. (Financial)

Medical residents' and other trainees' scores on a VHA survey assessing their clinical training experience
The satisfaction survey for residents and other medical trainees assists VHA in determining how well we are achieving VA's academic mission of

providing innovative and high-quality health care training for VA and the Nation. The survey results are used to learn what satisfies medical trainees and to improve the clinical training experience. The sources of this data are the responses to a summary question from the Learners' Perceptions Survey. (Medical Education)

Memorial Service Network

NCA's field structure is geographically organized into five Memorial Service Networks (MSNs). The national cemeteries in each MSN are supervised by the MSN Director and staff. The MSN offices are located in Philadelphia, Pennsylvania; Atlanta, Georgia; Indianapolis, Indiana; Denver, Colorado; and Oakland, California. The MSN Directors and staff provide direction, operational oversight, and engineering assistance to the cemeteries located in their geographic areas. (Burial)

National accuracy rate (authorization work)

Nationwide, the percentage of original death pension claims, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations completed and determined to be technically accurate. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices. (C&P)

National accuracy rate (fiduciary work)

Nationwide, the percentage of field examinations and account audits completed and determined to be technically accurate. The accuracy rate for the Nation is a compilation of the C&P Service's review of the 57 regional offices. (C&P)

Net cost of operations

Net cost of operations is the gross cost incurred by VA less any exchange revenue earned from its activities. The gross cost of a program consists of the full cost of the outputs produced by that program plus any non-production costs that can be assigned to the program. (Financial)

Net position

Net position comprises the portion of VA's appropriations represented by undelivered orders and unobligated balances (unexpended appropriations) and the net results of the reporting entity's operations since inception, plus the cumulative amount of prior period adjustments (cumulative results of operations). (Financial)

Net program cost

Net program cost is the difference between a program's gross cost and its related exchange revenues. If a program does not earn any exchange revenue, there is no netting and the term used might be total program cost. (Financial)

Non-rating actions - average days pending

Elapsed time, in days, from date of receipt of a claim (for which work has not been completed) in the regional office to current date. Non-rating actions include the following types of claims: original death pension, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations. (C&P)

Non-rating actions - average days to process

Elapsed time, in days, from receipt of a claim in the regional office to closure of the case by issuing a decision by a regional office. Non-rating actions include the following types of claims: original death pension, dependency issues, income issues, income verification matches, income verification reports, burial and plot allowances, claims for accrued benefits, and special eligibility determinations. (C&P)

Notes to the Consolidated Financial Statements

The notes provide additional disclosures that are necessary to make the financial statements more informative and not misleading. The notes are an integral part of the financial statements. (Financial)

Number of audit qualifications identified in the auditor's opinion on VA's Consolidated Financial Statements

Audits are performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and the requirements of the Office of Management and Budget (OMB) Bulletin No. 01-02, *"Audit Requirements for Federal Financial Statements."* This measure reports how many audit qualifications are identified each year in VA's consolidated financial statements. (Departmental Management)

Number of indictments, arrests, convictions, and administrative sanctions

The number of indictments, arrests, convictions, and administrative sanctions achieved measures investigative performance. (OIG)

Number of reports issued

The OIG conducts Combined Assessment Program (CAP) reviews to evaluate the quality, efficiency, and effectiveness of VA facilities and issues reports to highlight the opportunities for improvement in quality of care, management controls, and fraud prevention. (OIG)

Obligations
Obligations represent the amount of orders placed, contracts awarded, services received, and other transactions occurring during a given period that would require payments during the same or future period. (Financial)

OMB Circular No. A-123
The Office of Management and Budget (OMB) issued Circular No. A-123 to provide guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. (Financial)

OMB Circular No. A-127
The Office of Management and Budget (OMB) issued Circular No. A-127 to prescribe policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. (Financial)

Outlay
Outlay is the amount of checks, disbursement of cash, or electronic transfer of funds made to liquidate a Federal obligation. Outlays also occur when interest on the Treasury debt held by the public accrues and when the Government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments in other to liquidate obligations. (Financial)

Outpatient visits/1000 – subdivided by: Med/Surg
A ratio of all visits to providers against unique patients served for all medical and surgical clinics. Provides information that assists in the evaluation of cost efficiency. (Medical Care)

Outpatient visits/1000 – subdivided by: Mental Health
A ratio of all visits to providers against unique patients served for all mental health clinics. Provides information that assists in the evaluation of cost efficiency. (Medical Care)

Overall satisfaction
Nationally, the percentage of respondents to the C&P customer satisfaction survey who were "very satisfied" or "somewhat satisfied" with the way VA handled their claim. (C&P)

Participation rate in the monthly Minority Veterans Program Coordinators (MVPC) conference call
Conference calls are scheduled monthly to identify concerns and issues that affect benefits delivery to minority veterans, collaborate and exchange best practices, and update the Center on current as well as ongoing initiatives within their respective areas. (Departmental Management)

Payment accuracy rate
Measures how well decisions reflect payment at the proper rate for the correct period of time. (Education)

Percent change in earnings from pre-application to post-program employment
This performance measure is a Common Measure under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2004. (VR&E)

Percent cumulative reduction in excess capacity as a result of CARES
The CARES strategic planning process identifies excess capacity by VISN and then outlines an action plan each year on what will be addressed the following year. (Medical Care)

Percent increase of EDI usage over base year of 1997
The percent increase in the number of line items ordered through Electronic Data Interchange (EDI) by fiscal year. (Departmental Management)

Percent of all patients evaluated for the risk factors for hepatitis C
Hepatitis C is a major public health problem, and there is a concern that this disease occurs more frequently among veterans than the rest of the population. From a patient and public health perspective, all patients should be screened for high risk factors. If patients are at high risk for being exposed to hepatitis C, then they should be tested and evaluated for possible drug therapy. Regardless of whether they elect to initiate drug therapy or are candidates for current treatments, they need to receive information about disease transmission, the benefits of avoiding hepatotoxins such as alcohol, and the current recommendations regarding vaccination against other types of viral hepatitis. The numerator is the number of patients ever screened for risk factors, tested, and/or diagnosed for hepatitis C. The denominator is all patients in the sample. (Medical Care)

Percent of all patients tested for hepatitis C subsequent to a positive hepatitis C risk factor screening
The number of patients who are ever tested or diagnosed for hepatitis C divided by the number of patients in the sample ever tested, diagnosed, or screened with a positive risk factor. (Medical Care)

Percent of blocked calls
The percentage of call attempts for which callers receive a busy signal because all circuits were in use for the insurance toll-free service number. (Insurance)

Percent of cases processed in less than 180 days after filing (HRA)

Equal Employment Opportunity Commission regulations state that formal complaints must be investigated (processed) within 180 days of being filed. There are some permissible exceptions to this requirement, such as cases that are amended. (Departmental Management)

Percent of cases using alternate dispute resolution (ADR) techniques

The percent of contract dispute matters electing to use Alternate Dispute Resolution (ADR) techniques. ADR techniques refer generally to several formal and informal processes for resolving disputes that do not entail courtroom litigation. (Departmental Management)

Percent of clinical software patches installed on time: CPRS, BCMA, Imaging

The clinical software patches that support the electronic medical record (CPRS), blood administration (BCMA), and radiology (Imaging) have been identified as having significant safety potential for patients if not installed on time. This measure ensures that all are installed in an appropriate time frame. (Medical Care)

Percent of employees who are aware of alternate dispute resolution (ADR) as an option to address workplace disputes

The percent of employees who are made aware of ADR through a variety of mechanisms, such as increased training opportunities, mediation satellite broadcast programs, and promotion of videotape examples on mediation. (Departmental Management)

Percent of funeral directors who respond that national cemeteries confirm the scheduling of the committal service within 2 hours

The percent of funeral directors who respond that the amount of time it typically takes to confirm the scheduling of an interment is less than one hour or one to two hours. (Burial)

Percent of headstones and markers that are undamaged and correctly inscribed

This percentage represents the number of headstones and markers that are undamaged and correctly inscribed, divided by the number of headstones and markers ordered. (Burial)

Percent of individual headstone and marker orders transmitted electronically to contractors

The percent of individual headstone and marker orders that were transmitted to contractors via communication software or Internet e-mail. (Burial)

Percent of monuments ordered on-line by other federal and state veterans cemeteries using AMAS-R

The percentage represents the number of headstones and markers ordered through NCA's Automated Monument Application System-Redesign (AMAS-R) by other federal (for example, Arlington National Cemetery) and state veterans cemeteries, divided by the total number of headstones and markers ordered by other federal and state veterans cemeteries. (Burial)

Percent of participants employed first quarter after program exit

This performance measure is a Common Measure under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2004. (VR&E)

Percent of participants still employed three quarters after program exit

This performance measure is a Common Measure under development with the Departments of Labor, Education, Health and Human Services, and Veterans Affairs and will go into effect in FY 2004. (VR&E)

Percent of patients who report being seen within 20 minutes of scheduled appointments at VA health care facilities

Percent of patients who report in the Survey of Healthcare Experiences of Patients (SHEP) that once at the medical center for a scheduled appointment, they waited for a provider equal to or less than 20 minutes. (Medical Care)

Percent of patients with hepatitis C who have annual assessment of liver function

The number of patients who are determined to have hepatitis C who have an annual blood test to assess their liver function divided by the number of patients who have tested positive for having hepatitis C. (Medical Care)

Percent of pharmacy orders entered into the Computerized Patient Record System (CPRS) by the prescribing clinician

The risk of error in processing prescriptions is reduced when orders are entered directly into a computer. This performance measure is intended to reduce risk to patients and reduce variation in the clinical use of CPRS across the system. The numerator is the number of pharmacy orders entered into CPRS by the prescribing

clinician. The denominator is the applicable inpatient and outpatient pharmacy orders entered into **V**ist**A**. (Exclusions include those required by DEA to have a written copy, orders entered by medical students that require a co-signature, and protocol or standing orders.) (Medical Care)

Percent of Presidential Memorial Certificates that are accurately inscribed

A Presidential Memorial Certificate (PMC) conveys to the family of the veteran the gratitude of the Nation for the veteran's service. To convey this gratitude, each certificate must be accurately inscribed. This measure represents the number of PMCs initially sent to the families of deceased veterans that are accurately inscribed, divided by the number of PMCs issued. (Burial)

Percent of primary care clinic appointments scheduled within 30 days of desired date

The waiting time is the number of days between when the patient identifies the date they want an appointment and the date of the appointment regardless of the length of time between when the request for an appointment is made and the date for which the appointment is requested. (Medical Care)

Percent of respondents who would recommend the national cemetery to veterans' families during their time of need

The percent of respondents who agree or strongly agree that they would recommend the national cemetery to veteran families during their time of need. (Burial)

Percent of specialist clinic appointments scheduled within 30 days of desired date

The waiting time is the number of days between when the patient identifies the date they want an appointment and the date of the appointment regardless of the length of time between when the request for an appointment is made and the date for which the appointment is requested. (Medical Care)

Percent of statutory minimum goals met for small business concerns

The Office of Small and Disadvantaged Business Utilization (OSDBU) ensures maximum opportunities for all small businesses in accordance with the Small Business Act, as amended. (Departmental Management)

Percent of the Federal Information Security Management Act (FISMA – formerly Government Information Security Reform Act) reviews and reporting requirements completed

FISMA requires an annual security review of all information technology (IT) systems. IT system owners complete an on-line survey that asks about risks, the appropriate levels of information security controls for the risks identified, implementing policies and procedures to cost-effectively reduce risks to an acceptable level, and periodically testing and evaluating the development and maintenance of controls required to protect Federal information and information systems throughout the life cycle of each agency information system. This information is reported to OMB annually and updated quarterly. (Departmental Management)

Percent of VA Central Office-based top management officials, other key personnel, and emergency planners who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level

This measure provides an indicator of the extent to which senior Washington-based VA leaders are trained and prepared to assume effective leadership roles and ensure continuity of VA operations in time of national emergency. (Departmental Management)

Percent of VA field-based top management officials, other key personnel, and emergency managers who receive training or, as applicable, who participate in exercises relevant to VA's COOP plan on the National level

This measure provides an indicator of the extent to which senior field-based VA leaders are trained and prepared to assume effective leadership roles and ensure continuity of VA operations in time of national emergency. (Departmental Management)

Percent of veterans served by a burial option in a national cemetery within a reasonable distance (75 miles) of their residence

NCA determines the percentage of veterans served by a burial option in existing national cemeteries within a reasonable distance of their residence by analyzing census data on the veteran population. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a national cemetery that is available within 75 miles of the veteran's place

of residence. From 2000 through 2002, actual performance is based on the VetPop2000 model using updated 1990 census data. For 2003, actual performance is based on a revised VetPop2000 model using 2000 census data. (Burial)

Percent of veterans served by a burial option only in a state veterans cemetery within a reasonable distance (75 miles) of their residence

NCA determines the percentage of veterans served by a burial option only in a state veterans cemetery within a reasonable distance of their residence by analyzing census data on the veteran population. A burial option is defined as a first family member interment option (whether for casketed remains or cremated remains, either in-ground or in columbaria) in a state veterans cemetery that is available within 75 miles of the veteran's place of residence. From 2000 through 2002, actual performance is based on the VetPop2000 model using updated 1990 census data. For 2003, actual performance is based on a revised VetPop2000 model using 2000 census data. (Burial)

Percent of veterans using Vet Centers who report being satisfied with services, and responding "yes," they would recommend the Vet Center to other veterans

Since 1979, VA has provided counseling services to assist veterans in readjusting to civilian life through a nationwide system of 206 community-based counseling facilities known as Vet Centers. The Vet Centers were the first VA service program to treat PTSD systematically in returning war veterans. Vet Centers now provide, in a non-hospital community setting, a variety of social services, extensive community outreach and referral activities, psychological assessment, psychological counseling for war-related experiences (including PTSD) and sexual trauma, and family counseling when needed. Initially restricted to Vietnam veterans, current law has extended eligibility for Vet Center services to any veteran who has served in the military in a theater of combat operations or in any area where armed hostility was occurring at the time of the veteran's service. This performance measure tracks the percentage of veterans who respond on the Vet Center Veteran Satisfaction Survey that they are satisfied with services and would recommend the Vet Center to other veterans. (Medical Care)

Prevention Index II (Special Populations)

The overall Prevention Index score is comprised of nine disease or health factors that measure how well VA follows nationally recognized primary prevention and early detection recommendations that significantly determine health outcomes. Indicators within the Index include screening for influenza, Pneumococcal pneumonia, tobacco consumption, alcohol abuse, breast cancer, cervical cancer, colorectal cancer, prostate cancer, and cholesterol levels. The same overall index is then evaluated for those patients who meet the definition of a special population as a sub-group. (Medical Care)

Program evaluation

An assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended outcomes. (Departmental Management)

Prompt Payment Act

The Prompt Payment Final Rule (formerly OMB Circular No. A-125, "Prompt Payment") requires Executive departments and agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late. (Financial)

Property holding time (months)

The average number of months from date of custody of a property to the date of sale of a property acquired due to defaults on VA-guaranteed loans. (Housing)

Property, Plant, and Equipment

Property, plant, and equipment consist of tangible assets, including land, that have estimated useful lives of 2 years or more, not intended for sale in the ordinary course of operations, and have been acquired or constructed with the intention of being used, or being available for use, by the reporting entity. (Financial)

Proportion of discharges from SCI Center bed sections to non-institutional settings

Assesses the ongoing functional status of SCI patients. A non-institutional setting indicates the patient is still functioning at a higher level of independence. Reflects outcome of the rehabilitation processes of care. (Medical Care)

PTSD – Post Traumatic Stress Disorder

PTSD is an anxiety disorder that can occur following the experience or witnessing of life-threatening events, such as military combat, natural disasters, terrorist incidents, serious accidents, or violent personal assaults such as rape. People who suffer from PTSD often relive the experience through nightmares and flashbacks, have difficulty sleeping, and feel detached or estranged. These symp-

toms can be severe enough and last long enough to significantly impair the person's daily life. Common PTSD stressors in veterans include war zone stress (e.g., combat and exposure to mass casualty situations), the crash of a military aircraft, or sexual assault. VA is committed to providing an integrated, comprehensive, and cost-effective continuum of care for veterans with PTSD. (Medical Care)

Quality-Access-Satisfaction/ Cost VALUE Index

The QAS/Cost VALUE Index includes both cost and other domains of value such as quality, access, and satisfaction that express meaningful outcomes for VA's resource investments. Unlike a simple cost measure that can lead to false impressions of efficiency, the VALUE measure demonstrates a balanced perspective of cost efficiency along with desired outcomes. The measure simply portrays the desired outcomes (as percentage of goals) that VA achieves with its budgeted resources by establishing a value relationship of Quality-Access-Satisfaction to dollars (QAS/cost). (Medical Care)

Quality – The percentage of diabetic patients taking the HbA1c blood test in the past year

Clinical Practice guidelines recommend an annual evaluation of HbA1c testing as it is used to measure long-range glycemic control. Increased control decreases potential complications from diabetes. (Medical Care)

Research and Development

Research and development investments are expenses included in the calculation of net costs to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new and improved products and processes, with the expectation of maintaining or increasing national economic productivity capacity or yielding other future benefits. (Financial)

Return on sale

The national average on the return on investment (percentage) on properties sold that were acquired due to defaults on a VA-guaranteed loan. It is the amount received for the property (selling price) divided by the acquisition cost and all subsequent expenditures for improvements, operating, management, and sales expenses. (Housing)

Speed of entitlement decisions in average days

Average number of days from the time the application is received until the veteran is notified of the entitlement decision. (VR&E)

Statement of Budgetary Resources

A financial statement that provides assurance that the amounts obligated or spent did not exceed the available budget authority, obligations and outlays were for the purposes intended in the appropriations and authorizing legislation, other legal requirements pertaining to the account have been met, and the amounts are properly classified and accurately reported. (Financial)

Statement of Changes in Net Position

A financial statement that provides the manner in which VA's net costs were financed and the resulting effect on the Department's net position. (Financial)

Statement of Financing

A financial statement that explains how budgetary resources obligated during the period relate to the net cost of operations. It also provides information necessary to understand how the budgetary resources finance the cost of operations and affect the assets and liabilities of the Department. (Financial)

Statement of Net Costs

A financial statement that provides information to help the reader understand the net costs of providing specific programs and activities, and the composition of and changes in these costs. (Financial)

Statement of Written Assurance

A statement of written assurance is required by the Federal Managers' Financial Integrity Act. Each year, the head of each executive agency must prepare a statement that the agency's systems of internal accounting and administrative control fully comply with the requirements of the law, or that they do not comply. In the latter case, the head of the agency must include a report in which (a) material weaknesses in the agency's system of internal accounting and administrative controls are identified, and (b) the plans and schedules for correcting any such weaknesses. (Financial)

Statistical quality index

A quality index that reflects the number of correct actions found in Statistical Quality Control reviews, measured as a percentage of total actions reviewed. (Housing)

Status of Budgetary Resources

Obligations incurred, the unobligated balances at the end of the period that remain available, and unobligated balances at the end of the period that are unavailable except to adjust or liquidate prior year obligations. (Financial)

Stewardship Land
Land not acquired for or in connection with items of general property, plant, and equipment. (Financial)

Stewardship Property, Plant, and Equipment
Assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E consists of heritage assets, national defense PP&E, and Stewardship Land. (Financial)

Telehealth
The use of electronic communications and information technology to provide and support health care when distance separates the participants. It includes health care practitioners interacting with patients, and patients interacting with other patients. (Medical Care)

Telemedicine
The provision of care by a licensed independent health care provider that directs, diagnoses, or otherwise provides clinical treatment delivered using electronic communications and information technology when distance separates the provider and the patient. (Medical Care)

Telephone activities - abandoned call rate
Nationwide, the percentage of call attempts for which the caller gets through, but hangs up before talking to a VA representative. (C&P, Education)

Telephone activities - blocked call rate
Nationwide, the percentage of call attempts for which callers receive a busy signal because all circuits were in use. (C&P, Education)

Unobligated Balances
Balances of budgetary resources that have not yet been obligated. (Financial)

VA Domiciliary
A VA domiciliary provides comprehensive health and social services in a VA facility for eligible veterans who are ambulatory and do not require the level of care provided in nursing homes. (Medical Care)

VA Hospital
A VA hospital is an institution that is owned, staffed, and operated by VA and whose primary function is to provide inpatient services. Note: Each division of an integrated medical center is counted as a separate hospital. (Medical Care)

VA Regional Office
A VA Regional Office is a VBA office located in each state that receives and processes claims for VA benefits. (VBA)

Value of monetary benefits from IG audits
A quantification of funds that could be used more efficiently if management took actions to complete recommendations pertaining to deobligating funds, costs not incurred by implementing recommended improvements, and other savings identified in audit reports. (OIG)

Value of monetary benefits from IG contract reviews
The sum of the questioned and unsupported costs, identified in pre-award contract reviews, that the IG recommends be disallowed in negotiations unless additional evidence supporting the costs is provided. (OIG)

Value of monetary benefits from IG investigations
Includes court fines, penalties, restitution, civil judgments, and investigative recoveries and savings. (OIG)

Veterans Integrated Service Network (VISN)
The 21 VISNs are integrated networks of health care facilities that provide coordinated services to veterans to facilitate continuity through all phases of healthcare and to maximize the use of resources. (Medical Care)

Veterans satisfaction
The percentage of veterans answering the survey that were very satisfied or somewhat satisfied with the process of obtaining a VA home loan. (Housing)

Waiting time for new primary care appointments, percent within 30 days
The waiting time is the percent of the time that the number of days between when a primary care appointment is requested and the date of the appointment is 30 days or less. (Medical Care)

Waiting time for new specialty care appointments, percent within 30 days
The waiting time is the percent of the time that the number of days between when a specialty care appointment is requested and the date of the appointment is 30 days or less. (Medical Care)

List of Abbreviations and Acronyms

AAC
Austin Automation Center

ADR
Alternate Dispute Resolution

AHA
American Hospital Association

AICPA
American Institute of Certified Public Accountants

AMAS-R
Automated Monument Application System–Redesign

ARC
Allocation Resources Center

AZT
Azidothymidine

BDD
Benefits Delivery at Discharge

BDN
Benefits Delivery Network

BDOC
Bed Days of Care

BEC
Benefits Executive Council

BOB
Business Oversight Board

BOSS
Burial Operations Support System

BPA
Blanket Purchase Agreement

BVA
Board of Veterans' Appeals

C&P
Compensation and Pension

CAMS
Capital Asset Management System

CAP
Combined Assessment Program

CAPRI
Compensation and Pension Records Interchange

CARES
Capital Asset Realignment for Enhanced Services

CBOC
Community-based Outpatient Clinic

CDC
Centers for Disease Control and Prevention

CDCI II
Chronic Disease Care Index II

CFO
Chief Financial Officer

CFS
Consolidated Financial Statements

CHL
Countrywide Home Loans

CIO
Chief Information Officer

CIRC
Central Incident Response Capability

CMOP
Consolidated Mail Outpatient Pharmacy

CMS
Centers for Medicare and Medicaid Services

CNH
Community Nursing Homes

COLAs
Cost of Living Adjustments

COOP
Continuity of Operations Plan

CoreFLS
Core Financial and Logistics System

CPRS
Computerized Patient Record System

CPTS
Centralized Property Tracking System

CSMAS
Competitive Sourcing and Management Analysis Service

CSO
Commissioners Standard Ordinary

CSP
Cyber Security Professionalization

CSRS
Civil Service Retirement System

CWT
Compensated Work Therapy

CWT/TR
Compensated Work Therapy/Transitional Residential

DCHV
Domiciliary Care for Homeless Veterans

DFAS
Defense Finance and Accounting Service

DIC
Dependency and Indemnity Compensation

DMC
Debt Management Center

DoD
Department of Defense

DOE
Department of Energy

DOL
Department of Labor

DOOR
Distribution of Operational Resources

DSS
Decision Support System

EA
Enterprise Architecture

ECAP
Electronic Certification Automated Processing

ECSIP
Enterprise Cyber Security Infrastructure Project

EDI
Electronic Data Interchange

EFO
Enterprise Fund Office

EPA
Environmental Protection Agency

FAIR Act
Federal Activities Inventory Reform Act

FASAB
Federal Accounting Standards Advisory Board

FASB
Financial Accounting Standards Board

FATS
Foreclosure Avoidance Through Servicing

FECA
Federal Employees' Compensation Act

FERS
Federal Employees Retirement System

FFMIA
Federal Financial Management Improvement Act

FIFO
First In First Out

FISCAM
Federal Information System Controls Audit Manual

FISMA
Federal Information Security Management Act

FITSAF
Federal Information Technology Security Assessment Framework

FMFIA
Federal Managers' Financial Integrity Act

FMS
Financial Management System

FQAM
Financial Quality Assurance Manager

FSC
Financial Services Center

FSQAS
Financial & Systems Quality Assurance Service

FSS
Federal Supply Schedule

FTE
Full-time Equivalent

FY
Fiscal Year

G&EC
Geriatrics and Extended Care

GAAP
Generally Accepted Accounting Principles

GAO
General Accounting Office

GMRA
Government Management Reform Act

GPO
Government Printing Office

GPRA
Government Performance and Results Act

GSA
General Services Administration

GWVIS
Gulf War Veterans Information System

HCHV
Health Care for Homeless Veterans

HEC
Health Eligibility Center

H/HHA
Homemaker/Home Health Aide

HIM
Health Information Management

HIPAA
Health Information Portability and Accountability Act

HUD
Department of Housing and Urban Development

HUD-VASH
HUD-VA Supported Housing

IDS
Intrusion Detection System

IFCAP
Integrated Funds Distribution, Control Point Activity, Accounting and Procurement

IHS
Indian Health Service

IMS
Inventory Management System

ISO
Information Security Officer

IT
Information Technology

IVM
Income Verification Match

JEC
Joint Executive Council

LETC
Law Enforcement Training Center

LS&C
Loan Service & Claims

MAP-D
Modern Award Processing - Development

MCCF
Medical Care Collections Fund

MEO
Most Efficient Organization

MPI
Master Patient Index

MSN
Memorial Service Network

MVPC
Minority Veterans Program Coordinators

NAC
National Acquisition Center

NCA
National Cemetery Administration

NEPEC
Northeast Program Evaluation Center

NIH
National Institutes of Health

NOD
Notice of Disagreement

NSLI
National Service Life Insurance

NSOC
Network and Security Operations Center

OA&MM
Office of Acquisition and Materiel Management

OAEM
Office of Asset Enterprise Management

OCIS
Office of Cyber and Information Security

OGC
Office of General Counsel

OHRM
Office of Human Resources Management

OIG
Office of Inspector General

OM
Office of Management

OMB
Office of Management and Budget

OPM
Office of Personnel Management

ORD
Office of Research and Development

OSDBU
Office of Small and Disadvantaged Business Utilization

OSGLI
Office of Servicemembers' Group Life Insurance

OWCP
Office of Workers' Compensation Program

P&F
Program and Financing

PA&I
Office of Performance Analysis and Integrity

PAID
Personnel and Accounting Integrated Data

PART
Program Assessment Rating Tool

PBSC
Performance-based Service Contracting

PFSS
Patient Financial Service System

PI II
Prevention Index II

PKI
Public Key Infrastructure

PLOU
Portfolio Loan Oversight Unit

PMC
Presidential Memorial Certificate

PP&E
Property, Plant & Equipment

PTSD
Post Traumatic Stress Disorder

QA
Quality Assurance

QAS
Quality-Access-Satisfaction

QM
Quality Management

R&D
Research and Development

RBA2000
Rating Board Automation 2000

REMIC
Real Estate Mortgage Investment Conduits

REO
Real Estate Owned

RID
Review and Inspections Division

RMC
Records Management Center

RO
Regional Office

RPO
Regional Processing Office

RVSR
Rating Veteran Service Representative

S&IC
Security and Investigations Center

S-DVI
Service-Disabled Veterans Insurance

SFFAS
Statement of Federal Financial Accounting Standards

SGLI
Servicemembers' Group Life Insurance

SHEP
Survey of Healthcare Experiences of Patients

SKIPPES
Skills, Knowledge, and Insurance Practices and Procedures Embedded in Systems

SMC
Strategic Management Council

SQC
Statistical Quality Control

SSA
Social Security Administration

SSN
Social Security Number

STAR
Statistical Technical Accuracy Review

SVES
State Verification and Exchange System

SVH
State Veterans Home

SWA
Statement of Written Assurance

TAP
Transition Assistance Program

TBI
Traumatic Brain Injury

TMP
Telecommunications Modernization Project

TOP
Treasury Offset Program

TPSS
Training and Performance Support System

TREASURY
Department of the Treasury (U.S. Treasury)

TRICARE
DoD-Managed Care Support Contract

UME
Unreimbursed Medical Expense

U.S.C.
United States Code

USGLI
United States Government Life Insurance

VA
Department of Veterans Affairs

VACERT
VA Electronic Education Certification Program

VACO
VA Central Office

VAEB
VA Executive Board

VAMC
VA Medical Center

VA RC&V
VA Records Center and Vault

VARO
VA Regional Office

VBA
Veterans Benefits Administration

VCAA
Veterans Claims Assistance Act

VERA
Veterans' Equitable Resource Allocation

VGLI
Veterans' Group Life Insurance

VHA
Veterans Health Administration

VISN
Veterans Integrated Service Network

VistA
Veterans Health Information Systems and Technology Architecture

VMLI
Veterans' Mortgage Life Insurance

VR&E
Vocational Rehabilitation and Employment

VRI
Veterans' Reopened Insurance

VSLI
Veterans' Special Life Insurance

WAN
Wide Area Network

WCP
Workers' Compensation Program

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